



South Texas Project Electric Generating Station P.O. Box 289 Wadsworth, Texas 77483

October 27, 2004
NOC-AE-04001815
10CFR50.75(f)(1)

U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
One White Flint North
11555 Rockville Pike
Rockville, MD 20852

South Texas Project
Units 1 and 2
Docket No. STN 50-498 and STN 50-499
Restated Decommissioning Master Trust Agreement and
Decommissioning Fund Status Report for City Public Service

Pursuant to 10 CFR 50.75(f)(1), STP Nuclear Operating Company, acting on behalf of the City of San Antonio, Texas, acting by and through the City Public Service Board, operating as City Public Service of San Antonio (CPS), herein submits the Restated Decommissioning Master Trust Agreement and the Decommissioning Fund Status Report for CPS. CPS has recently exercised its right of first refusal to acquire an additional 12% ownership interest in the South Texas Project from AEP Texas Central Company.

There are no new commitments in this letter.

If there are any questions regarding this submittal, please contact John Conly at (361) 972-7336 or Robert K. Temple (CPS) at (210) 353-3113.

A handwritten signature in black ink, appearing to read "Mark McBurnett". The signature is written in a cursive, flowing style.

Mark McBurnett
Manager, Nuclear Safety Assurance

jtc

- Enclosures:
1. Restated Decommissioning Master Trust Agreement, January 1, 2001
 2. Second Amendment to Restated Decommissioning Master Trust Agreement
 3. Redline Reflecting Changes Associated with Amendment 2 to Restated Decommissioning Master Trust Agreement
 4. Restated Decommissioning Master Trust Agreement Investment Policy, February 1, 2004
 5. Decommissioning Fund Status Report

ADD

cc:

(paper copy)

Bruce S. Mallett
Regional Administrator, Region IV
U. S. Nuclear Regulatory Commission
611 Ryan Plaza Drive, Suite 400
Arlington, Texas 76011-8064

U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
One White Flint North
11555 Rockville Pike
Rockville, MD 20852

Richard A. Ratliff
Bureau of Radiation Control
Texas Department of State Health Services
1100 West 49th Street
Austin, TX 78756-3189

Jeffrey Cruz
U. S. Nuclear Regulatory Commission
P. O. Box 289, Mail Code: MN116
Wadsworth, TX 77483

C. M. Canady
City of Austin
Electric Utility Department
721 Barton Springs Road
Austin, TX 78704

(electronic copy)

A. H. Gutterman, Esquire
Morgan, Lewis & Bockius LLP

R. K. Temple
City Public Service

David H. Jaffe
U. S. Nuclear Regulatory Commission

R. L. Balcom
Texas Genco, LP

C. A. Johnson
AEP Texas Central Company

Jon C. Wood
Cox Smith Matthews

James J. Nesrsta
City Public Service

C. Kirksey
City of Austin

Enclosure 1

Restated Decommissioning Master Trust Agreement, January 1, 2001

**CITY PUBLIC SERVICE
RESTATED DECOMMISSIONING MASTER TRUST
AGREEMENT FOR THE SOUTH TEXAS PROJECT**

TRUST ORIGINALLY EFFECTIVE JUNE 26, 1990

RESTATEMENT EFFECTIVE

JANUARY 1, 2001

CITY PUBLIC SERVICE
RESTATED DECOMMISSIONING MASTER TRUST
AGREEMENT FOR THE SOUTH TEXAS PROJECT

City Public Service of San Antonio (hereinafter called "CPS"), having received applications from qualified banks to serve as the Trustee of the Decommissioning Master Trust, beginning January 1, 2001, and Frost National Bank (hereinafter called the "Trustee") having submitted an application which was found by CPS to be the best and most acceptable application and the same having been accepted by CPS, it is agreed by and between CPS and the Trustee as follows:

ARTICLE 1 - DEFINITIONS, PURPOSE AND NAME

1.1 Definitions. As used in this Decommissioning Master Trust Agreement, the following terms shall have the following meanings:

- (1) "Administrative Costs" shall mean all ordinary and necessary expenses and other incidental costs incurred in connection with the operation of the Master Trust and the Funds, including, but not limited to, Trustee fees, Investment Manager fees, the fees and/or compensation of any professional advisors, legal counsel or administrative support hired by CPS as provided in Section 3.1 or any other fees approved in advance by CPS which are incurred in the discharge of the Trustee's fiduciary obligations under this Agreement.
- (2) "Agreement" shall mean this Restated Decommissioning Master Trust Agreement For The South Texas Project as it may from time to time be amended, modified or supplemented.

- (3) "Authorized CPS Representatives" shall mean the General Manager & CEO, the Secretary-Treasurer, and the Assistant Secretary-Treasurer of CPS, or any other person designated as an Authorized Representative by a Certificate filed with the Trustee as approved by a CPS Board of Trustee Resolution (included as Attachment A).
- (4) "Board of Trustees" shall mean the Board of Trustees of CPS.
- (5) "Certificate" or "Certification" shall mean a written Certificate signed by two Authorized CPS Representatives.
- (6) "Decommissioning Contributions" shall mean all amounts contributed to the Funds by CPS for Decommissioning Costs of the Plant.
- (7) "Decommissioning Costs" shall mean the costs incurred in connection with entombment, decontamination, dismantlement, removal and disposal of the structures, systems and components of a Unit, including all costs incurred in connection with the preparation for decommissioning, such as engineering and other planning expenses, and all expenses incurred with respect to a Unit after actual decommissioning occurs, such as physical security and radiation monitoring expenses, to the extent such costs are incurred pursuant to a decommissioning plan for a Unit approved by the Nuclear Regulatory Commission (the "NRC").
- (8) "Disbursements" shall mean payments to CPS or any other person or organization which provides (1) goods or services used in decommissioning the Plant, or (2) goods and services associated with the administration of the Master Trust.

- (9) "Disbursement Certificate" shall mean a document authorizing disbursements from the funds properly completed and executed by two Authorized CPS Representatives (one of which must be the General Manager & CEO or Secretary-Treasurer) and substantially in the form of Attachment B of this Agreement.
- (10) "Erroneous Contribution" shall have the meaning set forth in Section 2.3 of this Agreement.
- (11) "Funds" shall mean the South Texas Project Unit No. 1 Fund and the South Texas Project Unit No. 2 Fund and the South Texas Project Fuel Storage Fund, collectively.
- (12) "Fund Account" shall mean a separate account established pursuant to this Agreement and maintained by the Trustee for the South Texas Project Unit No. 1 Fund, the South Texas Project Unit No. 2 Fund, and the South Texas Project Fuel Storage Fund to account for all Decommissioning Contributions made to each Fund, all income and other increments of each Fund, and all disbursements from each Fund.
- (13) "Investment Manager(s)" shall mean the fiduciary specified in an Investment Management Agreement(s):
- (a) Which has been retained by CPS to manage, acquire, or dispose of any asset held in the Master Trust;
 - (b) Which is:
 - (i) registered as an investment adviser under the Investment Adviser Act of 1940, or
 - (ii) a bank, as defined in that Act, or

- (iii) an insurance company qualified to perform services described in subsection (a) above, under the laws of more than one state; and
- (c) Which has acknowledged, in writing, that it is a fiduciary with respect to the Master Trust, that it is qualified to act under subsection (b) above, and that it has agreed to be bound by all of the terms, provisions and covenants of this Agreement.
- (14) "Investment Management Agreement(s)" shall mean the agreement(s) (if any) between CPS and any Investment Manager(s) selected by CPS, which agreement governs the investment management of all or a specified portion of the assets of the Master Trust.
- (15) "Master Trust" shall mean the City Public Service Restated Decommissioning Master Trust for the South Texas Project established under this Agreement, which shall hold all contributions to any Fund, together with investments and reinvestments thereof and any income, earnings and appreciation thereon.
- (16) "Plant" shall mean the South Texas Project, Unit Nos. 1 and 2, collectively.
- (17) "South Texas Project" shall mean the nuclear fueled electric generating facilities owned by CPS and others in Matagorda County, Texas.
- (18) "South Texas Project Unit No. 1" shall mean Unit No. 1 of the South Texas Project.
- (19) "South Texas Project Unit No. 1 Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning South Texas Project Unit No. 1.
- (20) "South Texas Project Unit No. 2" shall mean Unit No. 2 of the South Texas Project.

- (21) "South Texas Project Unit No. 2 Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning South Texas Project Unit No. 2.
- (22) "South Texas Project Fuel Storage" shall mean the fuel storage facilities of the South Texas Project.
- (23) "South Texas Project Fuel Storage Fund" shall mean the Fund established and maintained under the Master Trust for fuel storage facilities during decommissioning period.
- (24) "Trustee" shall mean the present organization designated to serve as Trustee of the Master Trust as well as any successor Trustee.
- (25) "Unit" or "Units" shall mean either South Texas Nuclear Project Unit No. 1 or No. 2, singularly, or South Texas Nuclear Project Units No. 1 and No. 2, collectively.

1.2 Authorization. The Trustee and CPS hereby represent and warrant that each has full legal authority and is duly empowered to enter into and bind itself to the terms of this Agreement, and has taken all action necessary to authorize the execution of this Agreement by the officers and persons signing it. The Trustee also warrants that it has a net worth of at least \$100 million.

1.3 Master Trust Purpose. The exclusive purpose of this Master Trust is to provide monies for the decommissioning of the Plant consistent with 10 C.F.R., Part 50. In that regard, this Master Trust shall accumulate, invest, reinvest and hold monies for the decommissioning of the Units and related fuel storage to expend monies for that purpose.

1.4 Establishment of Master Trust. By execution of this Agreement, CPS:

- (1) establishes the Master Trust which shall initially consist of the Trust funds and investments listed in Attachment C, and such Decommissioning Contributions as subsequently may be delivered to the Trustee by CPS, investments and reinvestments thereof, and earnings and appreciation thereon; and
- (2) establishes the South Texas Project Unit No. 1 Fund, the South Texas Project Unit No. 2 Fund, and the South Texas Project Fuel Storage Fund each of which shall constitute a separate fund account consisting of the Decommissioning Contributions designated for each Fund as may be delivered to the Trustee by CPS, together with investments and reinvestments thereof and earnings and appreciation thereon.

1.5 Name of Master Trust. The Trust created under this Agreement shall be known as the "City Public Service Restated Decommissioning Master Trust for the South Texas Project."

ARTICLE 2 - DISPOSITIVE PROVISIONS

2.1 Additions to Master Trust. From time to time after the initial contribution to the Master Trust and prior to the termination of the Trust, CPS may make, and the Trustee shall accept, additional contributions.

2.2 Disbursements from Master Trust. The Trustee shall make Disbursements to pay Decommissioning Costs or Administrative Costs in accordance with the following procedures:

- (1) Authorized Representative. CPS shall promptly notify the Trustee of the designation of any person as an Authorized CPS Representative in addition to those defined under Paragraph 1.1(3) of this Agreement. The name of any person authorized to act on behalf of CPS shall be certified, with a specimen signature of such person, to the Trustee by CPS. The Trustee shall have no duty to inquire independently into or investigate the continued authority of any person to act as an Authorized CPS Representative. CPS shall provide the Trustee with written notice of the termination of any Authorized CPS Representative's authority.
- (2) Submission of Disbursement Certificate. Disbursement Certificates for Decommissioning Costs or Administrative Costs actually incurred by CPS and paid or payable to any person or organization or for reimbursement of Decommissioning Costs or Administrative Costs previously paid by CPS to any person or organization in connection with the decommissioning of the Plant or the administration of the Master Trust shall be submitted to the Trustee and must be signed by two Authorized CPS Representatives, one of whom must be the General Manager & CEO or the ~~Secretary~~ Treasurer.
- (3) Payment of Decommissioning or Administrative Costs. The Trustee shall pay Decommissioning Costs or Administrative Costs when a completed Disbursement Certificate, signed by two Authorized CPS Representatives as provided in Paragraph 2.2(2), is filed with the Trustee. The invoice or bill for such costs shall be attached to the Certificate, if such invoice or bill is available. The Trustee shall retain at least one copy of each Disbursement Certificate, including attachments, received pursuant to this Section 2.2.

- 2.3 Adjustments for Erroneous Contributions. The Trustee and CPS understand and agree that if any contribution made by CPS to any Fund from time to time is found by CPS to be made in error, upon verification of CPS setting forth the amount of the Erroneous Contribution, such Erroneous Contribution (together with any income accrued thereon as determined by CPS) shall be returned to CPS as specified in a Certification to the Trustee.
- 2.4 No Transfers Between Fund Accounts. The Trustee and CPS understand and agree that no transfer of monies is to occur between the Fund Accounts except when explicitly indicated by a Certificate of CPS that such transfer is necessary to effectuate the purposes of this Master Trust.
- 2.5 Designation of Funds. Upon: (a) the initial contribution to the Master Trust; (b) the remittance of subsequent contributions to the Master Trust pursuant to Section 2.1; (c) any disbursements from the Master Trust for Decommissioning Costs pursuant to Section 2.2 or for Administrative Costs pursuant to Section 3.1 or Paragraph 4.1(1); or (d) any adjustment to the Funds pursuant to Sections 2.3 or 2.4, CPS shall designate, by Certificate, the appropriate Fund Account(s) to be credited or debited by such contribution, disbursement, or adjustment, and the Trustee shall credit or debit the appropriate Fund Account(s) in accordance with such Certificate.
- 2.6 Distribution of Income.
- (1) Generally. The Trustee shall not be precluded from pooling Decommissioning Contributions received for each of the Fund Accounts for investment purposes and may treat each Fund Account's Decommissioning Contributions as having received or having accrued a rateable portion of the Master Trust income in any year.

However, all such contributions and income (and investments of such) must be reported separately on individual account statements for each Fund Account. No pooling of the Funds with any other funds controlled by the Trustee or to which the Trustee has access shall be allowed.

- (2) Principal and Income. All questions relating to the ascertainment of income and principal and the allocation of receipts and disbursements between income and principal shall be resolved by the Trustee in accordance with the provisions of Section 113.102 of the Texas Trust Code. / ←

- (3) Transfer of Income to Principal. As of the end of each accounting year of the Master Trust as defined in Section 6.8, the income of the Master Trust, for purposes of all subsequent accounting years, shall be transferred and shall be incorporated into the principal of the Master Trust.

- 2.7. Transferability of Interest. The interest of CPS in the Master Trust is not transferable by CPS involuntarily nor is it subject to the claims of creditors of CPS, provided, however, that CPS and/or any creditor of CPS for which a Disbursement Certificate has been properly completed and submitted to the Trustee by CPS may assert a claim, in court or otherwise, directly against the Master Trust in an amount not to exceed the amount specified on such Disbursement Certificate, if the Trustee does not disburse the amount of funds covered by the Disbursement Certificate within 90 days of its receipt by the Trustee. Nothing herein shall be construed to require a transfer of all or a part of CPS' interest in the Master Trust upon sale of all or a part of CPS' ownership interest in the Plant which is the subject of this Agreement. Should a sale of all or a part of CPS' ownership interest in the one or more Units of the Plant be consummated, the Fund

Account(s) established for such Unit or Units shall be distributed as provided in Section 2.10 of this Agreement.

2.8 Irrevocability and Termination of Master Trust. Subject to the right of the parties to amend this Agreement as provided in Section 2.11, this Master Trust shall be irrevocable and will terminate (in whole or in part) upon receipt by the Trustee of a Certificate from CPS stating the extent of the termination and (i) that the decommissioning of the Plant or one of the Units has been completed; (ii) that the NRC has terminated the licenses of one or both Units; or (iii) that CPS has disposed of all or a part of its ownership interest in one or both Units of the Plant.

2.9 Termination of Funds of Master Trust. One or more of the Funds which are the subject of this Master Trust shall terminate upon the following:

- (1) final payment of all Decommissioning Costs and/or Administrative Costs associated with one or both Units;
- (2) termination of the licenses of one or both Units by the NRC; or
- (3) the disposition by CPS of all or a part of its ownership interest in one or both Units.

2.10 Distribution of Master Trust Upon Termination. Upon partial or complete termination of this Master Trust, the Trustee shall assist, if necessary, in liquidating the assets of the Master Trust, and thereafter distribute the then-remaining assets of the Master Trust (including accrued, accumulated, and undistributed net income) to the extent of the termination less final Administrative Costs to CPS.

2.11 Alterations and Amendments. The Trustee and CPS understand and agree that modifications or amendments may be required to this Agreement from time to time to effectuate the purpose of this Master Trust, including, but not limited to, amendments necessary to comply with requirements of the NRC, amendments consistent with qualifying income from trust investments as tax exempt under the Internal Revenue Code, or other amendments not inconsistent with the use of trust funds solely for decommissioning purposes as provided herein. CPS reserves the right at any time to amend in whole or in part any or all of the provisions of this Agreement by an instrument in writing duly acknowledged and delivered to the Trustee; provided, however, that no such amendment which affects the rights, duties, responsibilities or immunities of the Trustee may be made without its consent.

ARTICLE 3 - TRUST MANAGEMENT AND ADMINISTRATION

3.1 Management Duties. CPS, by and through the Authorized CPS Representatives as specified in Paragraph 1.1(3), shall direct and manage the investments of the Master Trust and perform all duties attendant thereto, including, but not limited to, (a) the direction of the investment of assets of the Master Trust, (b) the preservation and protection of any interests of the Master Trust and its assets, (c) the appointment of Investment Managers (if one is appointed), and (d) the execution of whatever contracts, agreements, or other documents it deems necessary to manage the Funds of the Master Trust. CPS may retain the services of such professional advisors, legal counsel, and administrative support as it deems necessary to carry out its responsibilities. The reasonable fees and/or compensation for any such assistance CPS may desire to retain shall be regarded as Administrative Costs payable in accordance with Section 2.2 as approved by CPS.

3.2 Evaluation of Trustee and Investment Manager(s). CPS shall evaluate the performance of the Trustee and any Investment Manager(s) annually and submit a written report to the CPS Board of Trustees. The report shall include, at a minimum:

- (1) A finding, with supporting analysis, as to whether the current Trustee and Investment Manager(s) should be retained or replaced;
- (2) A justification for the use of one or more Investment Manager(s) (if applicable); and
- (3) An itemized accounting of the Master Trust administration expenses and their basis, and all other expenditures from the Master Trust.

At least once every five (5) years, CPS shall evaluate potential substitute Trustees and submit a report to the CPS Board of Trustees. This report may be combined with the annual report described above and shall include, at a minimum:

- (1) A description of CPS' attempts to solicit proposals from other firms which can perform the trust duties; and
- (2) An evaluation of at least three (3) organizations which could potentially replace the current Trustee.

Notwithstanding the paragraph above, CPS shall not be required to solicit proposals to replace a Trustee(s) who, in the judgment of CPS, is performing adequately and has served as Trustee for less than five (5) years.

3.3 Limitations on Trustee Actions. The Trustee shall not take any action or participate in any transaction which would violate the terms and conditions of any instructions

provided by CPS pursuant to Section 3.4 so long as the terms and conditions are consistent with this Agreement.

- 3.4 Instructions to Trustee. All orders, directions, requests, instructions and Certifications by CPS to the Trustee shall be in writing, signed by two Authorized CPS Representatives (one of which must be the General Manager & CEO or the Secretary-Treasurer). The Trustee shall have the right to assume, in the absence of written notice to the contrary, that no event constituting a change or a termination of the authority of any person to act on behalf of CPS has occurred. The Trustee shall have no duty to act in the absence of such orders, directions, requests, instructions, and Certifications from CPS.

ARTICLE 4 - TRUSTEE

- 4.1 General Powers. The Trustee shall hold all property of the Funds in trust in the Master Trust. The Trustee shall have, with respect to the Master Trust, the following powers, all of which are to be exercised in a fiduciary capacity and in the best interests of CPS, and which are to be exercised as the Trustee, acting in such fiduciary capacity, in its discretion, shall determine. Except as otherwise provided, this list is intended in no way to limit the powers of the office.

- (1) Payment of Administrative Costs. To pay all Administrative Costs as defined in Paragraph 1.1(1), but only upon written authorization of CPS.
- (2) Registration of Securities. To register and to hold in trust any bonds, securities, and/or other property in the Funds in the name of the Master Trust or to deposit or arrange for deposit of any securities issued by the U. S. government, or any agency or instrumentality thereof, in trust in book entry.

with a Federal Reserve Bank; provided, however, that at all times the books and records of the Trustee show that all such securities are part of the Master Trust.

- (3) Receipt of Money. To collect and receive any and all money or other property due to the Master Trust or any fund and to give full receipt therefor.
- (4) Resolution of Claims. To commence or defend suits or legal proceedings, to protect any interest of the Trustee, providing such action has been previously approved by CPS and, with the permission of CPS, to represent the Trust in all suits or legal proceedings in any court or before any other body or tribunal.
- (5) Location of Assets. To hold any property belonging to the Master Trust at any place in the United States with the prior approval of CPS.
- (6) Retention of Professional Services. To execute any of the powers under this Agreement and to perform the duties required of it hereunder by or through its employees, agents, attorneys, or receivers, except as limited by Section 4.1 (10) of this Trust Agreement. Any costs and expenses of its employees and agents or any costs and expenses associated with the retention of professional services by the Trustee shall be borne by the Trustee.
- (7) Powers of Trustee to Continue Until Final Distribution. To exercise any powers after the date on which the principal and income of the Master Trust shall have become distributable and until such time as the entire principal and income of the Master Trust shall have been actually distributed by the Trustee. It is intended that distribution of the Master Trust will occur as soon as possible upon termination of the Master Trust, subject, however, to the limitations contained in Sections 2.9 and 2.10.

(8) Exercise of Powers. To do any and all other acts which the Trustee shall deem proper to effectuate the powers specifically conferred upon it by this Agreement, provided, however, that the Trustee may not do any act or knowingly engage in any transaction which would:

(a) Contravene any provision of this Agreement; or

(b) Violate the terms and conditions of any instructions, Certifications, or other directions provided by CPS.

(9) Texas Trust Code. To exercise all rights, powers, options and privileges now or hereafter granted to, provided for or vested in Trustees under the Texas Trust Code, except such as conflict with the terms of this Agreement or applicable law. As far as possible, no subsequent legislation or revelation shall be in limitation of the rights, powers, options or privileges granted to the Trustee under this Agreement or in the Texas Trust Code as it exists at the time of the execution of this Agreement or any subsequent amendment.

(10) Subcustodians. To provide trustee, custodial and subcustodial services for all investments of the Funds, either directly or through its affiliates or divisions, unless the Trustee has obtained the prior written approval of CPS to use another entity as a subcustodian or subtrustee. Notwithstanding the above, without the prior written approval of CPS the Trustee may entrust property of the Funds to national or regional depositories or clearing agencies such as the Depository Trust Company and Federal Reserve Banks provided that (1) the property is held in an account which contains only property held by the Trustee as custodian or trustee for its customers; (2) the property is separately identified on the books of the Trustee as being held in its capacity as Trustee

of the Master Trust; and (3) the property so held is subject only to the instructions of the Trustee, which in turn shall be subject to the provisions of this Master Trust Agreement.

4.2 Designation and Qualification of Successor Trustee(s) by CPS. CPS shall have the power to appoint the Trustee and all successor Trustees for the Master Trust. CPS by this Agreement has appointed the corporate fiduciary named herein having all requisite corporate power and authority to act as the sole Trustee. The Trustee shall act in accordance with the directions and Certifications provided to it by CPS under the terms of this Agreement. The Trustee shall be removed and replaced with a successor Trustee as provided below:

- (1) In the event that the Trustee then serving shall: (a) relinquish or suffer a revocation of its authority to act as a fiduciary; (b) become insolvent or admit in writing its insolvency; (c) be unable or admit in writing its inability to pay its debts as such debts mature; (d) make a general assignment for the benefit of creditors; (e) have an involuntary petition in bankruptcy filed against it; (f) commence a case under or otherwise seek to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation, law, statute or proceeding; or (g) be subject to receivership under the authority of the Federal Deposit Insurance Corporation or the Comptroller of the Currency, the Trustee shall automatically be replaced and shall immediately transfer and pay over to such successor Trustee the monies and assets then constituting the Master Trust and its Funds to a successor Trustee appointed by the General Manager & CEO of CPS and in accordance with any instructions contained in a Certificate of transfer issued by CPS.

- (2) In the event that the Trustee then serving shall fail to meet the financial criteria and qualifications set by CPS from time to time, CPS may immediately remove the Trustee upon written notice delivered to such Trustee and the Trustee shall immediately transfer and pay over to such successor Trustee the monies and assets then constituting the Master Trust and its Funds to a successor Trustee appointed by the General Manager & CEO of CPS and in accordance with any instructions contained in a Certificate of transfer issued by CPS.
- (3) In any instances other than those described in Sections 4.2 (1) and (2), CPS shall have the right to remove the Trustee then serving at any time and for any or no reason and appoint a successor Trustee upon thirty (30) days notice in writing to the Trustee, or upon such shorter notice as may be acceptable to the Trustee. In these instances, the successor Trustee shall accept its appointment to serve as Trustee of this Master Trust by executing a written and acknowledged acceptance delivered to CPS, which acceptance shall also specify the date on which the successor Trustee will assume administration of the Master Trust, at least ten (10) business days before such appointment. CPS shall provide a copy of this acceptance to the Trustee then serving. The Trustee then serving, on the effective date of the transfer, shall assign, transfer and pay over to such successor Trustee the monies and assets then constituting the Master Trust and its Funds.
- (4) The CPS Board of Trustees shall ratify the appointment of any successor Trustee selected by the General Manager & CEO of CPS, or select another successor Trustee. Any successor Trustee shall have all the rights, powers,

duties and obligations of its predecessor in trust hereunder, with like effect as if originally named as Trustee hereunder.

- 4.3 Resignation. The Trustee or any successor Trustee may resign at any time by written notice which shall be delivered to CPS not less than ninety (90) days prior to the effective date of the Trustee's resignation or upon such shorter notice as may be acceptable to CPS. CPS shall appoint a successor Trustee effective as of the effective date of the resignation, and the Trustee then serving shall assign, transfer and pay over to such successor Trustee the monies and assets then constituting the Master Trust and its Funds.

If for any reason CPS cannot or does not act in the event of the resignation of the Trustee, the Trustee then serving may apply to a court of competent jurisdiction for the appointment of a successor Trustee. Any reasonable expenses incurred by the Trustee in connection with the appointment of a successor Trustee by the court shall be deemed to be Administrative Costs payable in accordance with Paragraph 4.1(1).

- 4.4 Merger of Trustee. Any corporation into which the Trustee may be merged or with which it may be consolidated, any corporation to which Trustee transfers all or substantially all of its trust business or any corporation resulting from any merger or consolidation to which the Trustee shall be a party, shall be the successor Trustee under this Agreement without the necessity of executing or filing any additional acceptance of this Agreement or the performance of any further act on the part of any parties hereto.

- 4.5 Compensation. The Trustee shall be entitled to compensation from the Master Trust per the fee schedule set forth in its entirety in Attachment D. This fee schedule is guaranteed for a period of five (5) years. The fee schedule may be revised upon mutual agreement of CPS and the Trustee at the end of this period.

All Trustee fees shall constitute Administrative Costs, shall be billed by the Trustee on a quarterly basis and shall be forwarded to CPS at the address provided in Section 6.5. If such Trustee fees remain unpaid after the expiration of thirty (30) days from the date of the billing and CPS does not object to the billing during these thirty (30) days, the Trustee is then authorized to deduct such as Administrative Costs from the Master Trust. If billed but unpaid Administrative Costs are deducted from the Funds constituting the Master Trust, CPS reserves the right to reimburse the Funds of the Master Trust for such Administrative Costs which were deducted.

4.6 Maintenance of Fund Accounts. The Trustee shall maintain a separate Fund Account for each Fund established under Section 1.4 of this Agreement to account for Decommissioning Contributions made to each Fund Account, all income and other increments earned in each Fund Account, and disbursements from each Fund Account subject to the provisions of Section 2.5.

4.7 Account Statements. The Trustee shall present financial statements to CPS on a monthly basis (within ten (10) business days following the end of each month), or at such other frequency as CPS shall from time to time require. The financial statements shall show (a) the financial condition of the Master Trust, including, without limitation, beginning and ending Fund balances, all contributions, investments, income received, disbursements made (including Administrative Costs) and all other transactions hereunder, for the statement period; (b) a description of all securities and investments purchased and sold, with the cost and net proceeds of such purchases or sales; and (c) all cash, securities and other property held by each Fund Account at the end of the period and providing a valuation of such property at such period end. All accounts, books and records relating to the Master Trust and the Fund Accounts shall be open at all reasonable times to inspection by CPS or by any other person designated by CPS. CPS shall assume

responsibility for employing independent certified public accountants to audit the financial statements of the Master Trust not less frequently than annually.

Within thirty (30) days following the close of the Master Trust's accounting year as defined in Section 6.8, the Trustee shall prepare and furnish to CPS a written report setting forth with respect to each Fund beginning and ending Fund balances, all contributions, investments, receipts, disbursements and other transactions effected by it during the preceding fiscal year, including a description of all securities and investments purchased and sold, with the cost and net proceeds of such purchases or sales, showing all cash, securities and other property held by each Fund Account at the end of the year and providing a valuation of such property at such year end.

Within sixty (60) days following the removal or resignation of a Trustee as provided in Sections 4.2, 4.3 and 4.4, the Trustee shall prepare and furnish to CPS and to any successor Trustee a written report containing all of the information required for fiscal year-end statements with respect to the period from the close of the previous fiscal year to the date of removal or resignation.

Copies of all records relating to the Master Trust and each of the Fund Accounts shall be maintained by the Trustee until the termination of the Master Trust and distribution of all of the assets of the Master Trust (even if the Trustee is not then serving as Trustee). Such copies may be maintained on microfilm or microfiche.

- 4.8 Liability. The Trustee shall be liable for the acts, omissions or defaults of its officers, employees and agents. Unless the Trustee participates in or undertakes to conceal an act or omission of CPS or an Investment Manager(s), knowing such act or omission to be a breach of the Agreement by CPS or the fiduciary responsibility of an Investment

Manager(s), the Trustee shall be under no liability by reason of any action taken or not taken by it in accordance with any Certification or other writing of CPS or any Investment Manager(s), provided such directions and/or instructions contained in a Certification or other writing are necessary and proper to effectuate and carry out the purpose of the Master Trust and the powers granted under this Agreement or any Investment Management Agreement. In any event, the Trustee shall be under no liability for any loss of any kind by reason of changes in value of the authorized investments purchased, sold, or retained by CPS or any Investment Manager(s), nor for the risk or diversification of the portfolio, nor for the turnover of the investments.

The Trustee is prohibited from doing any act or engaging in any transaction that would violate the terms and conditions of any instructions provided by written Certificate or other writing of CPS, or contravening any provision of this Agreement. Upon receipt of notice of either (a) instructions and/or Certifications of CPS to the Trustee, or (b) acts or transactions CPS believes constitute a violation by the Trustee of the provisions of this Agreement, the Trustee shall follow the instructions and/or Certifications of CPS, and/or cease and desist from the acts or transactions identified in such Certification or writing as violating the provisions of this Agreement. To the extent the Trustee fails to follow the instructions and/or Certifications of CPS, or continues with any act or transaction identified in such Certification or writing as violating the provisions of this Agreement, from the date of receipt of the Certification or writing providing the instructions and/or notice of violation of the provisions of this Agreement, the Trustee shall be liable for all consequences resulting from such failure. Notwithstanding the foregoing, the Trustee shall be liable for all consequences resulting from any violation by the Trustee of the provisions of this Agreement, regardless of whether notice thereof was provided by CPS, and as of the date of such violation.

ARTICLE 5 - INVESTMENTS AND INVESTMENT POWERS

5.1 Appointment/Removal/Resignation of Investment Manager(s). CPS may direct the investment of all or a specified portion of the Master Trust. Additionally, CPS may appoint one or more Investment Managers by separate agreement to direct the investment of all or a specified portion of the Master Trust. The Trustee or its affiliates may not serve in the capacity of Investment Manager. The appointment of the Investment Manager(s) shall be made in accordance with procedures specified by CPS. CPS shall provide written notice of any appointment of an Investment Manager(s) to the Trustee. The Investment Manager(s) shall certify in writing to CPS and the Trustee that it is qualified to act in the capacity provided under an Investment Management Agreement, shall accept its appointment as Investment Manager in writing, shall certify the identity of the person or persons authorized to give instruction or directions to the Trustee on its behalf, including specimen signatures, and shall undertake to perform the duties imposed on it under an Investment Management Agreement executed by it and CPS. The Trustee may continue to rely upon all such certifications unless otherwise notified in writing by CPS or the Investment Manager(s), as the case may be.

CPS shall also have the right to remove any appointed Investment Manager. In the event that an Investment Manager should resign or be removed, CPS shall manage the portion of the Trust previously managed by said Investment Manager pursuant to the provisions of this Trust unless the Trustee is notified of the appointment of another Investment Manager with respect to such portion.

5.2 Investment Direction by CPS and/or Investment Manager(s). CPS and/or any Investment Manager(s) appointed by CPS to manage all or a specified portion of the Master Trust shall have authority to manage and direct the acquisition and disposition of the assets of

all or a specified portion of the Master Trust over which it has designated investment authority. Only investments specified in Paragraph 5.4(b) of this Master Trust are authorized trust investments. CPS and/or the Investment Manager(s) shall have the power and authority, exercisable in its sole discretion at any time, and from time to time, to issue and place orders for the purchase or sale of Fund securities directly with brokers or dealers. The Trustee, upon proper notification from CPS or an Investment manager, shall have the authority to, and shall execute, settle and deliver in accordance with the appropriate trading authorizations. Written notification of the issuance of each authorization shall be given promptly to the Trustee by CPS or the Investment Manager(s), and CPS or the Investment Manager(s) shall cause the execution of such order to be confirmed in writing to the Trustee by the broker or dealer.

The authority of any Investment Manager(s) and the terms and conditions of the appointment and retention of any Investment Manager(s) shall be the sole responsibility of CPS. Any duty of supervision or review of the acts, omissions or overall performance of any Investment Manager(s), other than those necessary and proper to effectuate and carry out the purpose of the Master Trust and powers granted under this Agreement or any Investment Management Agreement, shall be the exclusive responsibility of CPS. The Trustee shall have no duty to make suggestions to any Investment Manager(s) or to CPS with respect to the exercise of or the failure to exercise any power by the Investment Manager(s), except that the Trustee shall have the duty to review any securities or other assets purchased by CPS or any Investment Manager(s) to ensure compliance and conformity with investment restrictions as provided in Paragraph 5.4(b) of this Agreement and/or any of the relevant investment provisions of any Investment Management Agreement between CPS and any Investment Manager.

5.3 Trustee's Investment Powers. The Trustee acknowledges and recognizes the authority of CPS and/or the Investment Manager(s) to manage and to direct the investment and reinvestment of the assets of the Master Trust as provided in Sections 3.1 and 5.2 of this Agreement and/or pursuant to an Investment Management Agreement executed between CPS and an Investment Manager(s). The Trustee agrees to cooperate with CPS and/or the Investment Manager(s) as necessary to facilitate the exercise of these powers. CPS directs the Trustee, without further written authorization by CPS, to invest cash balances on a daily basis in interest-bearing, fully collateralized accounts, or other investments which are authorized investments under Chapter 2256 of the Texas Government Code, as it may be amended from time to time, including a fiduciary money market fund, until directed to do otherwise by CPS and/or an Investment Manager.

5.4 CPS' Investment Management Powers. CPS, unless it has appointed an Investment Manager, shall have the following investment management powers, all of which are to be executed in a fiduciary capacity and in the best interest of CPS, and which are to be exercised by CPS in its discretion:

- (a) Preservation of Principal. To direct the investment of the assets of the Master Trust in a manner designed to maximize and preserve the income and principal of the Master Trust for the purposes of the Master Trust, pursuant to subsections (b) and (c);
- (b) Investment of Funds. To direct the investment and reinvestment of all or part of the Funds, including any undistributed income; provided, however, that no investment or reinvestment of the Funds may be made or directed unless such investment is an authorized investment under Chapter 2256 of the Texas Government Code, as it may be amended from time to time, and in

compliance with the City Public Service Decommissioning Master Trust For the South Texas Project Investment Policy (Attachment E). Furthermore, the Funds may not be invested in any securities issued by CPS, the City of San Antonio, any of its agencies, or any utility which has ownership of nuclear generating capacity. In all cases, however, the total investments must be sufficiently liquid to enable the Master Trust to fulfill the purposes of the Master Trust and to satisfy obligations as such obligations become due;

(c) Management of Master Trust.

- (1) To direct the sale, exchange, conveyance, partition, or other disposition of all or any part of the Master Trust, at public or private sale, on such terms, in such manner and at such prices as CPS shall determine;
- (2) To direct the modification, renewal or extension of bonds, notes or other obligations or any installment of principal or any interest due thereon and the waiver of any defaults in the performance of the terms and conditions thereof;
- (3) To direct and authorize the Trustee to make, execute, acknowledge and deliver any and all documents of transfer and conveyance and any and all other instruments in connection with these powers, at such times, in such manner and on such terms and conditions as CPS may deem expedient to accomplish the purpose of the Master Trust as set forth in Section 1.3; and
- (4) To direct and authorize the Trustee to renew or extend the time of payment of any obligation, secured or unsecured, payable to or by this Master Trust, for as long a period or periods of time and on such terms

as CPS shall determine; and to direct and authorize the Trustee to adjust, settle, compromise, and arbitrate claims or demands in favor of or against this Master Trust, on such terms as CPS may deem advisable.

(d) Disposition of Investments. When required to make any distributions under Section 2.2 or Section 4.1(1), the Trustee shall sell investments at the best price reasonably obtainable, or present investments for prepayment, but only as directed by CPS in writing. The Trustee shall have no liability, except for its own negligence or willful misconduct, with respect to any sale or prepayment of an investment directed by CPS or an Investment Manager or made at the direction of CPS or an Investment Manager through a broker/dealer.

(e) Self-Dealing. Notwithstanding anything contained in this Agreement to the contrary, CPS may not authorize any sale, exchange or other transaction which would constitute an act of "self dealing" within the meaning of Sections 113.052 and 113.053 of the Texas Trust Code, as it may be amended from time to time.

ARTICLE 6 - MISCELLANEOUS

6.1 Headings. The section headings set forth in this Agreement and the Table of Contents are inserted for convenience of reference only and shall be disregarded in the construction or interpretation of any of the provisions of this Agreement.

6.2 Particular Words. Any word contained in the text of this Agreement shall be read as the singular or plural and as the masculine, feminine, or neuter as may be applicable or

permissible in the particular context. Unless otherwise specifically stated, the word "person" shall be taken to mean and include an individual, partnership, association, trust, company, or corporation.

- 6.3 Interested Parties. CPS shall have the right and power to enforce any and all provisions of this Master Trust Agreement in a court of competent jurisdiction. Nothing expressed or implied in this Agreement is intended or shall be construed to confer on, or to give to, any person or corporation, other than CPS and the Trustee, any right, remedy or claim under or by reason of this Agreement, or any covenant, condition or stipulation contained herein, except as provided for in Section 2.7. CPS shall be entitled to receive payments for Decommissioning Costs and Administrative Costs of the Master Trust which CPS may incur in carrying out the purpose set forth in Section 1.3 of this Agreement.
- 6.4 Severability of Provisions. If any provision of this Agreement or its application to any person or entity or in any circumstances shall be invalid, illegal or unenforceable, the application of such provision to persons and in circumstances other than those to which it is invalid, illegal or unenforceable and to the other provisions of this Agreement shall not be affected by such invalidity, illegality or unenforceability.
- 6.5 Delivery of Notices Under Agreement. Any notice, communication or billing for Trustee's fees required by this Agreement to be delivered to CPS or any notice, certification or communication to the Trustee shall be deemed to have been delivered when mailed, postage prepaid, by registered or certified mail, to the person to be notified, as set forth below:

If to CPS:

City Public Service
145 Navarro
P. O. Box 1771
San Antonio, Texas 78296-1771
Attention: Secretary - Treasurer

If to the Trustee:

Frost National Bank
Retirement Services Division
P.O. Box 2950
San Antonio, Texas 78299-2950
Attention: City Public Service South Texas
Project Decommissioning
Master Trust

CPS or Trustee may change its address by delivering notice in writing to the other party.

6.6 Successors and Assigns. Subject to the provisions of Sections 2.7, 4.2, 4.3 and 4.4, this Agreement shall be binding on and inure to the benefit of CPS, the Trustee and their respective successors and assigns. This Agreement may not be assigned to any other party in whole or in part without the prior written consent of both parties to this Agreement. Except as provided in Section 4.1 (10), the duties of the Trustee may not be delegated by the Trustee without the prior written consent of CPS.

6.7 Governing Jurisdiction. This Agreement is a Texas trust and all questions pertaining to its validity, construction, and administration shall be determined in accordance with the laws of the State of Texas as if executed in and to be wholly performed within the State of Texas.

6.8 Accounting Year. The Master Trust shall operate on an accounting year which coincides with the calendar year, January 1 through December 31.

6.9 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures were on the same instrument.

6.10 Financial Accounting of Trustee. Any bank serving as the Trustee of the Master Trust shall provide quarterly financial statements on the financial condition of the bank and shall also submit evidence to the CPS Board of Trustees that the bank is satisfying the capital reserve requirements established by the Federal Reserve.

6.11 Effective Date. This Restated Decommissioning Master Trust Agreement is effective January 1, 2001.

IN WITNESS WHEREOF, CPS and the Trustee have set their hands and seals to this Agreement this 22nd day of December, 2000.

CITY PUBLIC SERVICE

Attest:

Patricia M. Major

Patricia M. Major

Assistant Secretary-Treasurer

By:

V. Gary Schaub

V. Gary Schaub

Secretary-Treasurer

Attest:

Judy Gilby

Name: Judy Gilby

Title: Vice President

By:

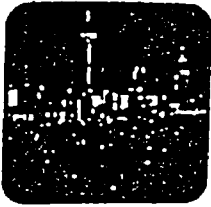
Mark Freeman

Name: MARK FREEMAN

Title: SENIOR VICE PRESIDENT

ATTACHMENT A

BANKING RESOLUTION



City Public Service
of
San Antonio, Texas

RESOLUTION FOR APPOINTMENT OF OFFICERS

With the retirement of Mr. Arthur von Rosenberg effective February 1, 1999 and the appointment of Ms. Jamie A. Rochelle as CEO and General Manager, the Board of Trustees adopted the following Resolution:

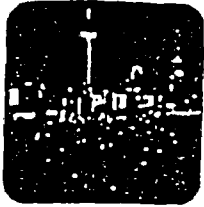
"BE IT RESOLVED by the Board of Trustees of the City Public Service Board of San Antonio, Texas, that V. Gary Schaub is hereby appointed Secretary-Treasurer to the Board of Trustees effective February 1, 1999; and

BE IT FURTHER RESOLVED that Patricia M. Major will continue her appointment as Assistant Secretary-Treasurer effective February 1, 1999."

I, V. GARY SCHAUB, Secretary of the City Public Service Board of San Antonio, do hereby certify that the above foregoing is a true and correct copy of a resolution adopted by the unanimous vote of the Trustees of the Board present at the regular meeting of the Board held on Monday, January 25, 1999.

I hereby further certify that the resolution, as adopted by the Board of Trustees at this meeting, has not been modified, rescinded nor amended since its adoption.

V. Gary Schaub
City Public Service Board
of San Antonio, Texas



City Public Service

of
San Antonio, Texas

CPS INVESTMENT AND BANKING RESOLUTION

The following resolution relating to CPS' investment and banking activities was presented for consideration and approval by the Board of Trustees:

"WHEREAS, the Board of Trustees of the City Public Service Board of San Antonio, Texas, is responsible for the prudent handling and control of funds and investment of the City Public Service Board (CPS); and

WHEREAS, the Board of Trustees of the City Public Service Board of San Antonio, Texas, is required to designate and authorize specific CPS Officers and Staff to conduct financial transactions on be-half of the CPS and the CPS STP Restated Decommissioning Master Trust; and

WHEREAS, a financial authorizations and approvals policy must be provided to banks, broker/dealers and others in order to conduct banking and/or securities transactions in the daily operations of CPS; and

WHEREAS, CPS organizational realignment has occurred which requires making certain changes in the Officers designated to authorize and approve financial transactions;

NOW THEREFORE BE IT RESOLVED that the Board hereby approves the following:

The Board of Trustees finds that the CPS Financial Authorizations and Approvals Policy, as attached hereto, is in compliance with the requirements of State Statute and Bond and TECP Ordinances and is hereby adopted and incorporated into this resolution by reference."

I, V. GARY SCHAUB, Secretary of the City Public Service Board of San Antonio, do hereby certify that the above foregoing is a true and correct copy of a resolution adopted by the unanimous vote of the Trustees of the Board present at the regular meeting of the Board held on Monday, April 27, 1998.

I hereby further certify that the resolution, as adopted by the Board of Trustees at this meeting, has not been modified, rescinded nor amended since its adoption.

V. Gary Schaub
City Public Service Board
of San Antonio, Texas



City Public Service

of
San Antonio, Texas

CPS FINANCIAL AUTHORIZATIONS AND APPROVALS POLICY

This CPS Financial Authorizations and Approvals Policy is the attachment referenced in the CPS Banking and Investment Resolution, dated April 27, 1998.

The CPS Officers listed below are authorized to act in the name of City Public Service to establish, maintain, and close bank or investment accounts, including those for the CPS Restated Decommissioning Master Trust:

CEO and General Manager
Secretary-Treasurer
Assistant Secretary-Treasurer

Authority to open an account requires the signatures of at least two of these CPS Officers on a corporate resolution form and/or signature cards furnished to the bank or investment firm. To close an account requires written notification to a bank or investment firm by any two of these CPS Officers.

These CPS Officers may authorize the use of any form of facsimile signature for any one of the above persons for signing checks drawn on any bank account in the name of City Public Service. In doing so, they will ensure that adequate controls and safeguards, as periodically reviewed by the CPS independent auditors, are maintained.

Any two of the above officers may designate and identify to a bank or investment firm other "AUTHORIZED EMPLOYEES" who may approve financial transactions when, and only when, joined by at least one of the CPS Officers named above.

In addition, any two of these CPS Officers are approved to authorize payments to be made on behalf of CPS by wire or any other electronic funds transfer process. These wire or electronic funds transfers may be by specific transaction authorization or by blank authorization in the case of repetitive or recurring transactions. Approved repetitive wire or other electronic fund transactions will normally be communicated to the bank each applicable pay date by a person(s) designated, and identified to the bank, by any two of the above officers.

The CPS Officers named above are also designated as the core members of CPS' Investment Strategy Committee. The CEO and General Manager and Secretary-Treasurer are authorized to appoint additional individuals to the CPS Investment Strategy Committee as they deem appropriate to carry out the functions and responsibilities. The Investment Strategy Committee is authorized to designate individuals who will serve on the CPS Investment Operations Committee. The Secretary-Treasurer for CPS will serve as the chairperson of the Investment Strategy Committee. Any CPS Officer or "AUTHORIZED EMPLOYEE" who purchases or sells securities will also be known as an Investment Officer of CPS.

Any two of the aforementioned CPS Officers or any one of them and an "AUTHORIZED EMPLOYEE" may execute any and all instruments necessary or required by a bank or investment firm to purchase or sell securities in the name of City Public Service and the CPS Restated Decommissioning Master Trust. All investment transactions will be confirmed in writing by any two of the aforementioned CPS Officers or by any one of them and an "AUTHORIZED EMPLOYEE".

An "AUTHORIZED EMPLOYEE" may purchase or sell securities and may execute wire or other electronic fund transactions associated with CPS accounts that have been preauthorized by two of the above CPS Officers or by any one of these Officers and another "AUTHORIZED EMPLOYEE."

Any two of these CPS Officers, or any one of them and an "AUTHORIZED EMPLOYEE", are authorized to release or substitute collateral securities pledged to secure City Public Service funds.

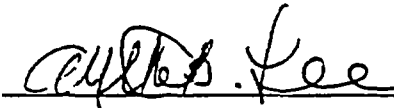
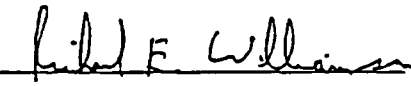

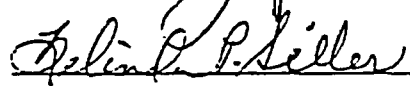

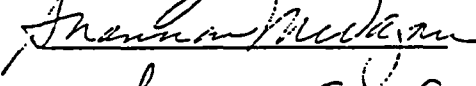
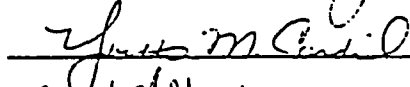
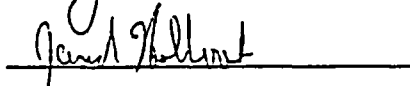
This financial policy supersedes previous resolutions made regarding banking and investment transactions, and investment officer appointments. A certified copy of the Board of Trustees Resolution approving and adopting this policy will be furnished to all banks, investment dealers and others transacting business with CPS. Banks and investment firms will be notified by either the Secretary-Treasurer or the Assistant Secretary-Treasurer to the Board of Trustees of the individual names of those who hold the positions specified, including "AUTHORIZED EMPLOYEES," in this financial policy.

I, V. GARY SCHAUB, Secretary of the City Public Service Board of San Antonio, do hereby certify that the above foregoing is a true and correct copy of the attachment referenced in the CPS Banking and Investment Resolution, adopted by the unanimous vote of the Trustees of the Board present at the regular meeting of the Board held on Monday, April 27, 1998. It has not been modified, rescinded nor amended since its adoption.

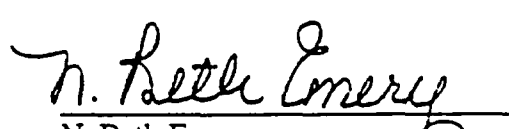
V. Gary Schaub
City Public Service Board
of San Antonio, Texas

AUTHORIZED CITY PUBLIC SERVICE (CPS) OF SAN ANTONIO REPRESENTATIVES

I, the undersigned, hereby certify that the following are the duly appointed and incumbent Authorized Representatives, as defined in the CPS Investment and Banking Resolution and the CPS Financial Authorizations and Approvals Policy for Banking, Investments and Hedging, each being an employee of the City and holding the office with City Public Service of San Antonio set forth opposite his/her name and the true and correct signature of each is as set forth opposite his/her name. These persons are also designated "Authorized Representatives" as defined in Paragraph 1.1(3) of the City Public Service Restated Decommissioning Master Trust Agreement for the South Texas Project, dated January 1, 2001.

<u>Office</u>	<u>Name</u>	<u>Signature</u>
General Manager and CEO	Milton B. Lee	
Treasurer, Senior Vice President of Financial Services and Chief Financial Officer	Richard E. Williamson	
Assistant Treasurer and Vice President of Financial Service	David Jungman	
Director of Finance	Belinda P. Siller	
Supervisor of Cash Management	Lonny Ahr	
Financial Analyst	Shannon M. Wagner	
Financial Analyst	Yvette M. Cardiel	
Financial Analyst	Jared Holbrook	

Executed this 29th day of July, 2004.


 N. Beth Emery
 Secretary
 City Public Service of San Antonio

CPS INVESTMENT AND BANKING RESOLUTION

The following resolution relating to CPS' investment and banking activities was presented for consideration and approval by the Board of Trustees:

"WHEREAS, the Board of Trustees of the City Public Service Board of San Antonio, Texas, is responsible for the prudent handling and control of funds and investments of the City Public Service Board (CPS); and

WHEREAS, the Board of Trustees of the City Public Service Board of San Antonio, Texas, is required to designate and authorize specific CPS Officers and staff to conduct financial transactions on behalf of CPS and the CPS Restated Decommissioning Master Trust for the South Texas Project and Hedge Instrument transactions on behalf of CPS; and

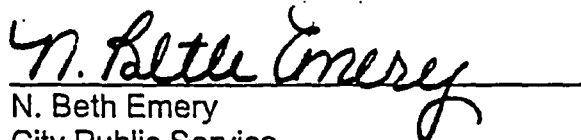
WHEREAS, a financial authorizations and approvals policy must be provided to banks, investment firms, brokers and other trading entities in order to conduct banking, investment and Hedge Instrument transactions in the daily operations of CPS."

NOW THEREFORE BE IT RESOLVED that the Board hereby approves the following:

The Board of Trustees finds that the CPS Financial Authorizations and Approvals Policy for Banking, Investments and Hedging, as attached hereto, is hereby adopted and incorporated into this resolution by reference, to be effective July 1, 2004.

I, N. BETH EMERY, Secretary of the City Public Service Board of San Antonio, do hereby certify that the above foregoing is a true and correct copy of a resolution adopted by the unanimous vote of the Trustees of the Board present at the regular meeting of the Board held on Monday, June 28, 2004.

I hereby further certify that the resolution, as adopted by the Board of Trustees at this meeting, has not been modified, rescinded nor amended since its adoption.


N. Beth Emery
City Public Service
Of San Antonio

CPS FINANCIAL AUTHORIZATIONS AND APPROVALS POLICY FOR BANKING, INVESTMENTS AND HEDGING

This CPS Financial Authorizations and Approvals Policy for Banking, Investments and Hedging is the attachment referenced in the CPS Investment and Banking Resolution, dated June 28, 2004.

Banking

The CPS Officers ("Officers") listed below, or any persons appointed to fill those positions in an interim capacity, are authorized to act in the name of City Public Service to establish, maintain and close bank accounts, including those for the CPS Restated Decommissioning Master Trust for the South Texas Project:

General Manager and CEO
Treasurer
Assistant Treasurer

Authority to open a bank account requires the signatures of at least two Officers. To close an account requires written notification to a bank by any two Officers.

Any two Officers may authorize the use of any form of facsimile signature for any other of the above persons for signing checks drawn on any bank account in the name of City Public Service. In doing so, they will ensure that adequate controls and safeguards, as periodically reviewed by the CPS independent auditors, are maintained.

Any two Officers may authorize financial transactions. In addition, any two Officers may designate and identify to a bank other authorized employees ("Authorized Employees") who may approve financial transactions when, and only when, joined by at least one Officer.

Payments to be made on behalf of CPS by wire or any other electronic funds transfer process may be approved by any two Officers or by one Officer and an Authorized Employee. These wire or electronic funds transfers may be by specific transaction authorization or by blank authorization in the case of repetitive or recurring transactions. An Authorized Employee may execute wire or other electronic fund transactions associated with CPS accounts that have been preauthorized by two of the above Officers or by any Officer and another Authorized Employee. Approved repetitive wire or other electronic fund transactions will normally be communicated to the bank each applicable pay date by a person(s) designated, and identified to the bank, by two Officers. Transmittal registers or confirmation advices for payments made electronically may be approved by one CPS Officer or other employee designated to approve such confirmations.

Any two Officers, or any one of them and another officer of CPS, are authorized to release or substitute collateral securities pledged to secure City Public Service funds.

CPS FINANCIAL AUTHORIZATIONS AND APPROVALS POLICY FOR BANKING, INVESTMENTS AND HEDGING

This CPS Financial Authorizations and Approvals Policy for Banking, Investments and Hedging is the attachment referenced in the CPS Investment and Banking Resolution, dated June 28, 2004.

Investments

The Officers listed below, or any persons appointed to fill those positions in an interim capacity, are authorized to act in the name of City Public Service to establish, maintain and close trading authorizations, including those for the CPS Restated Decommissioning Master Trust for the South Texas Project:

CEO and General Manager
Treasurer
Assistant Treasurer

Authority to establish a trade authorization requires the signature of two Officers furnished to the bank or investment firm. To close a trade authorization requires written notification to the bank or investment firm by any two Officers.

Any two Officers may approve financial investment transactions. In addition, any two Officers may designate and identify to a bank or investment firm other Authorized Employees who may approve investment transactions when, and only when, joined by at least one Officer.

An Authorized Employee when joined by at least one Officer may execute any and all instruments necessary or required by a bank or investment firm to purchase or sell securities in the name of City Public Service and the CPS Restated Decommissioning Master Trust for the South Texas Project. Two Officers, or one Officer and an Authorized Employee, will provide written confirmation of investment transactions to applicable safekeeping institutions, except that the routine transfer of CPS funds to a designated CPS money market mutual fund account that has been pre-authorized by two Officers or one Officer and one Authorized Employee does not require such written confirmation.

An Authorized Employee may purchase or sell securities associated with CPS accounts that have been pre-authorized by two Officers or by one Officer and another Authorized Employee. Preauthorized transactions may be communicated to the safekeeping agent by any one Officer or any one Authorized Employee.

The designated core members of CPS' Investment Strategy Committee are listed below, and include any persons appointed to fill those positions in an interim capacity:

Treasurer
Assistant Treasurer

These core members are also authorized to appoint additional individuals to the CPS Investment Strategy Committee, as they deem appropriate to carry out the functions and responsibilities established in the CPS Investment Policy and the CPS Restated Decommissioning Master Trust for the South Texas Project Investment Policy. The Investment Strategy Committee is authorized to designate individuals who will serve on the CPS Investment Operations Committee. The Treasurer for CPS will serve as the chairperson of the

CPS FINANCIAL AUTHORIZATIONS AND APPROVALS POLICY FOR BANKING, INVESTMENTS AND HEDGING

This CPS Financial Authorizations and Approvals Policy for Banking, Investments and Hedging is the attachment referenced in the CPS Investment and Banking Resolution, dated June 28, 2004.

Investment Strategy Committee. The Treasurer, Assistant Treasurer and any Authorized Employee who purchases or sells securities are designated as Investment Officers for purposes of the CPS Investment Policy and the CPS Restated Decommissioning Master Trust Agreement for the South Texas Project Investment Policy.

Any two Officers, or any one of them and another officer of CPS, are authorized to release or substitute collateral securities pledged to secure City Public Service funds.

Hedging

Any two of the following CPS Hedging Officers ("Hedging Officers"), or any persons appointed to fill those positions in an interim capacity, are authorized to act in the name of City Public Service to establish, maintain and close brokerage accounts and to execute or act under any other type of agreement, investment or document necessary or desirable that would enable the purchase, sale or other transaction that involves permissible Hedge Instruments specified by the CPS Energy Price Risk Management Policy:

General Manager and CEO
Treasurer
Assistant Treasurer
Senior Vice President of Energy Supply

Any two Hedging Officers may authorize Hedging Transactions. In addition, any two Hedging Officers may designate in writing one or more representatives ("Authorized Hedging Representatives") with specific authorization to give written or verbal instructions to buy and sell Hedge Instruments and to execute and/or take other actions concerning approved Hedge Instrument transactions as set forth in such written designation. Hedge Instrument transactions executed by an Authorized Hedging Representative must be pre-approved by two Hedging Officers or by any one Hedging Officer and a different Authorized Hedging Representative who has been designated to approve such transactions.

Only the Treasurer, Assistant Treasurer, and Senior Vice President of Energy Supply shall be considered Investment Officers for purposes of the Hedging Instruments and the Energy Price Risk Management Policy. All such Investment Officers shall sign the quarterly reports required to the CPS Board required under section XI. B. of the Energy Price Risk Management Policy.

Any two Hedging Officers or any one of them and another officer of CPS are authorized to release or substitute collateral pledged to secure City Public Service funds.

ATTACHMENT B

DISBURSEMENT CERTIFICATE

CITY PUBLIC SERVICE
DECOMMISSIONING MASTER TRUST
FOR THE SOUTH TEXAS PROJECT

DISBURSEMENT CERTIFICATE

The undersigned Authorized Representative of CPS, in such capacity, are authorized and empowered to execute and deliver this Certificate and certify to the Trustee of the CPS Decommissioning Master Trust for the South Texas Project ("Master Trust"), pursuant to Section 2.2 of the Master Trust Agreement effective January 1, 2001, between the Trustee and CPS, that:

1. there is due and owing to the Payee at the address specified the amount indicated which represents the cost for goods and/or services provided in connection with the decommissioning of Unit 1 and/or Unit 2, or the administration and management of the Master Trust as evidenced by the attached Schedule;
2. all amounts due and owing constitute Decommissioning Costs or Administrative Costs and were incurred for work undertaken pursuant to an NRC decommissioning plan; and
3. CPS approves this withdrawal and disbursement.

Accordingly, you are hereby authorized to withdraw \$_____ from the South Texas Project Unit No. 1 Fund, and \$_____ from the South Texas Project Unit No. 2 Fund of the Master Trust in order to make payment of the amount due to the Payee. You are further authorized to disburse such sum, once withdrawn, directly to the designated Payee in the following manner:

Payee: _____ Amount: _____
Address: _____ Method: _____
Pay on or by Date: _____
Purpose: _____

For Accounts: _____, and _____.

Executed this _____ day of _____.

By: _____
Rick Williamson
Treasurer
Senior Vice President Financial Services

By: _____
David Jungman
Assistant Treasurer
Vice President Finance Services

ATTACHMENT C

LIST OF ASSETS

STP Decommissioning Trust - Unit 1

CUSIP	Description	Purchase Date	Maturity Date	Days Held	Par Value (000s)	Coupon	Purchase Price	BEY @ Cost	Principal Cost	Accrued Interest Purchased	Total Purchase Cost
31331R2T1_1	FFCB Note	4/19/1999	3/15/2006	2522	\$3,457	5.790	100.570	5.687	\$3,476,715.69	18,904.03	3,495,619.72
3134A1KC3_1	FHLMC Note	4/17/2000	1/5/2007	2454	\$2,335	6.700	98.809	6.919	\$2,307,190.15	44,326.08	2,351,516.23
3134A1QR4_1	FHLMC Note	4/17/2000	3/19/2007	2527	\$1,870	6.800	99.244	6.937	\$1,855,862.80	9,890.22	1,865,753.02
31331HV20_1	FFCB Note	4/12/2002	6/12/2007	1887	\$2,214	7.250	109.430	5.144	\$2,422,780.20	53,505.00	2,476,285.20
3133X0E88_1	FHLB Note	8/6/2003	8/15/2007	1470	\$10,575	3.125	99.314	3.308	\$10,502,455.50	4,589.84	10,507,045.34
31358CS31_1	FNMA Strip	1/7/2002	11/15/2007	2138	\$1,298	0.000	73.663	5.288	\$956,145.74		956,145.74
31358DCM4_1	FNMA Strip	5/24/2002	2/15/2008	2093	\$2,403	0.000	74.317	5.251	\$1,785,847.12		1,785,847.12
3133M5A67_1	FHLB Note	1/13/2000	8/11/2008	3133	\$550	5.890	90.828	7.348	\$499,554.69	13,677.89	513,232.58
31331RC86_1	FFCB Note	7/13/2000	10/1/2008	3002	\$860	5.240	87.820	7.228	\$755,254.69	12,768.13	768,022.82
3133M5W71_1	FHLB Note	8/9/2002	10/7/2008	2251	\$6,030	5.085	104.374	4.268	\$6,293,752.20	103,911.98	6,397,664.18
31364DHW9_1	FNMA Strip	8/13/2002	10/8/2008	2248	\$4,077	0.000	76.488	4.403	\$3,118,410.58		3,118,410.58
3134A2UJ5_1	FHLMC Note	11/26/1999	10/15/2008	3246	\$1,070	5.125	89.395	6.727	\$956,526.50	6,245.38	962,771.88
3133M6RG5_1	FHLB Note	10/14/1999	12/2/2008	3337	\$1,540	5.590	91.311	6.884	\$1,406,194.41	31,564.87	1,437,759.28
3133M72C9_1	FHLB Note	8/9/2002	12/23/2008	2328	\$13,760	5.315	105.332	4.346	\$14,493,699.02	93,449.51	14,587,148.53
31331HXL6_1	FFCB Note	7/7/1999	7/7/2009	3653	\$1,155	6.750	100.867	6.630	\$1,165,013.85	0.00	1,165,013.85
31359YBJ5_1	FNMA Strip	5/28/2002	7/15/2009	2605	\$2,580	0.000	67.424	5.604	\$1,739,539.20		1,739,539.20
31359MEY5_1	FNMA Note	2/11/2000	9/15/2009	3504	\$1,580	6.625	95.032	7.353	\$1,501,505.60	46,522.22	1,548,027.82
912800AA7_1	T-Strip	6/19/2000	11/15/2009	3436	\$2,608	0.000	55.044	6.443	\$1,435,547.52		1,435,547.52
3133MATQ2_1	FHLB Note	4/17/2000	2/12/2010	3588	\$3,960	7.375	102.295	7.043	\$4,050,882.00	54,353.75	4,105,235.75
31358C6X9_1	FNMA Strip	10/22/2001	5/15/2010	3127	\$4,913	0.000	63.759	5.325	\$3,132,469.84		3,132,469.84
31359YBM8_1	FNMA Strip	12/31/2001	1/15/2011	3302	\$674	0.000	57.940	6.130	\$390,515.73		390,515.73
31359YBN6_1	FNMA Strip	12/31/2001	7/15/2011	3483	\$553	0.000	55.906	6.190	\$309,158.42		309,158.42
3133MKGH4_1	FHLB Note	12/31/2001	11/15/2011	3606	\$2,535	5.625	97.737	5.930	\$2,477,632.65	10,694.53	2,488,327.18
31359YBQ9_1	FNMA Strip	4/22/2004	7/15/2012	3006	\$1,424	0.000	67.434	4.844	\$960,260.16		960,260.16

STP Decommissioning Trust - Unit 1

CUSIP	Description	Purchase Date	Maturity Date	Days Held	Par Value (000s)	Coupon	Purchase Price	BEY @ Cost	Principal Cost	Accrued Interest Purchased	Total Purchase Cost
31364FBV2_1	FNMA Note	10/12/2000	9/25/2012	4366	\$1,659	6.470	96.408	6.915	\$1,599,402.08	5,068.71	1,604,470.79
31358C7C4_1	FNMA Strip	4/22/2004	11/15/2012	3129	\$3,020	0.000	65.991	4.913	\$1,992,928.20		1,992,928.20
912833DE7_1	T-Strip	5/28/1993	8/15/2013	7384	\$878	0.000	22.745	7.461	\$199,701.10		199,701.10
912833DE7_2	T-Strip	6/1/1993	8/15/2013	7380	\$712	0.000	22.631	7.490	\$161,132.72		161,132.72
912833DE7_3	T-Strip	4/17/1995	8/15/2013	6695	\$1,280	0.000	25.276	7.646	\$323,532.80		323,532.80
3133X1BV8_1	FHLB Note	10/9/2003	9/16/2013	3630	\$2,595	4.500	97.944	4.762	\$2,541,646.80	5,514.38	2,547,161.18
3133M8T53_1	FHLB Note	7/13/2000	5/27/2014	5066	\$515	6.335	91.970	7.261	\$473,645.50	4,168.78	477,814.28
31331NJU9_1	FFCB Note	1/18/2001	9/30/2014	5003	\$635	8.160	118.672	6.124	\$753,567.20	15,544.80	769,112.00
31359MEL3_1	FNMA Strip	7/18/2002	6/1/2017	5432	\$5,317	0.000	40.134	6.234	\$2,133,924.78		2,133,924.78
31358C7P5_1	FNMA Strip	1/28/2004	5/15/2018	5221	\$4,263	0.000	46.416	5.440	\$1,978,729.04		1,978,729.04
31358C7Q3_1	FNMA Strip	1/28/2004	11/15/2018	5405	\$1,621	0.000	44.722	5.512	\$724,938.22		724,938.22
31331H2R7_1	FFCB Note	2/22/2001	9/14/2020	7144	\$1,350	6.900	106.629	6.305	\$1,439,493.55	40,882.50	1,480,376.05
312902DF3_1	FHLMC Note	7/30/2001	9/15/2022	7717	\$510	7.690	116.425	6.274	\$593,767.50	14,707.13	608,474.63
31331H2S5_1	FFCB Note	12/18/2000	9/12/2025	9034	\$1,351	6.890	107.622	6.277	\$1,453,973.22	24,822.37	1,478,795.59
31331H2S5_2	FFCB Note	7/30/2001	9/12/2025	8810	\$3,406	6.890	105.843	6.409	\$3,605,012.58	89,958.14	3,694,970.72
PORTFOLIO : STP Decommissioning Trust - Unit 1 Totals											
CUSIP COUNT: 39				3,274	\$103,133			5.286	\$87,968,309.55	\$705,070.24	\$88,673,379.79

STP Decommissioning Trust - Unit 2

CUSIP	Description	Purchase Date	Maturity Date	Days Held	Par Value (000s)	Coupon	Purchase Price	BEY @ Cost	Principal Cost	Accrued Interest Purchased	Total Purchase Cost
31331R2T1_1	FFCB Note	4/19/1999	3/15/2006	2522	\$4,343	5.790	100.570	5.687	\$4,367,768.65	23,748.97	4,391,517.62
3134A1KC3_1	FHLMC Note	4/17/2000	1/5/2007	2454	\$2,665	6.700	98.809	6.919	\$2,633,259.85	50,590.58	2,683,850.43
3134A1QR4_1	FHLMC Note	4/17/2000	3/19/2007	2527	\$2,130	6.800	99.244	6.937	\$2,113,897.20	11,265.33	2,125,162.53
31331HV20_1	FFCB Note	4/12/2002	6/12/2007	1887	\$2,466	7.250	109.430	5.144	\$2,698,543.80	59,595.00	2,758,138.80
3133X0E88_1	FHLB Note	8/6/2003	8/15/2007	1470	\$11,740	3.125	99.314	3.308	\$11,659,463.60	5,095.49	11,664,559.09
31358CS31_1	FNMA Strip	1/7/2002	11/15/2007	2138	\$1,530	0.000	73.663	5.288	\$1,127,043.90		1,127,043.90
31358DCM4_1	FNMA Strip	5/24/2002	2/15/2008	2093	\$3,186	0.000	74.317	5.251	\$2,367,752.36		2,367,752.36
3133M5A67_1	FHLB Note	1/13/2000	8/11/2008	3133	\$730	5.890	90.828	7.348	\$663,045.31	18,154.29	681,199.60
31331RC86_1	FFCB Note	7/13/2000	10/1/2008	3002	\$1,140	5.240	87.820	7.228	\$1,001,151.57	16,925.20	1,018,076.77
3133M5W71_1	FHLB Note	8/9/2002	10/7/2008	2251	\$7,040	5.085	104.374	4.268	\$7,347,929.60	121,318.80	7,469,246.40
31364DHW9_1	FNMA Strip	8/13/2002	10/8/2008	2248	\$4,790	0.000	76.488	4.403	\$3,663,769.12		3,663,769.12
3134A2UJ5_1	FHLMC Note	11/26/1999	10/15/2008	3246	\$1,365	5.125	89.395	6.727	\$1,220,241.75	7,967.24	1,228,208.99
3133M6RG5_1	FHLB Note	10/14/1999	12/2/2008	3337	\$1,990	5.590	91.311	6.884	\$1,817,095.37	40,788.37	1,857,883.74
3133M72C9_1	FHLB Note	8/9/2002	12/23/2008	2328	\$16,155	5.315	105.332	4.346	\$17,016,403.18	109,714.89	17,126,118.07
31331HXL6_1	FFCB Note	7/7/1999	7/7/2009	3653	\$1,535	6.750	100.867	6.630	\$1,548,308.45	0.00	1,548,308.45
31359YBJ5_1	FNMA Strip	5/28/2002	7/15/2009	2605	\$3,420	0.000	67.424	5.604	\$2,305,900.80		2,305,900.80
31359MEY5_1	FNMA Note	2/11/2000	9/15/2009	3504	\$2,095	6.625	95.032	7.353	\$1,990,920.40	61,686.11	2,052,606.51
912800AA7_1	T-Strip	6/19/2000	11/15/2009	3436	\$2,897	0.000	55.044	6.443	\$1,594,624.68		1,594,624.68
3133MATQ2_1	FHLB Note	4/17/2000	2/12/2010	3588	\$4,525	7.375	102.295	7.043	\$4,628,848.75	62,108.77	4,690,957.52
31358C8X9_1	FNMA Strip	10/22/2001	5/15/2010	3127	\$5,635	0.000	63.759	5.325	\$3,592,808.38		3,592,808.38
31359YBM8_1	FNMA Strip	12/31/2001	1/15/2011	3302	\$783	0.000	57.940	6.130	\$453,670.36		453,670.36
31359YBN6_1	FNMA Strip	12/31/2001	7/15/2011	3483	\$643	0.000	55.906	6.190	\$359,473.54		359,473.54
3133MKGH4_1	FHLB Note	12/31/2001	11/15/2011	3606	\$2,945	5.625	97.737	5.930	\$2,878,354.65	12,424.22	2,890,778.87
31359YBQ9_1	FNMA Strip	4/22/2004	7/15/2012	3006	\$1,563	0.000	67.434	4.844	\$1,053,993.42		1,053,993.42

STP Decommissioning Trust - Unit 2

CUSIP	Description	Purchase Date	Maturity Date	Days Held	Par Value (000s)	Coupon	Purchase Price	BEY @ Cost	Principal Cost	Accrued Interest Purchased	Total Purchase Cost
31364FBV2_1	FNMA Note	10/12/2000	9/25/2012	4368	\$2,131	6.470	96.408	6.915	\$2,054,445.96	6,510.80	2,060,956.76
31358C7C4_1	FNMA Strip	4/22/2004	11/15/2012	3129	\$3,400	0.000	65.991	4.913	\$2,243,694.00		2,243,694.00
912833DE7_1	T-Strip	5/28/1993	8/15/2013	7384	\$1,007	0.000	22.745	7.461	\$229,042.15		229,042.15
912833DE7_2	T-Strip	6/1/1993	8/15/2013	7380	\$699	0.000	22.631	7.490	\$158,190.69		158,190.69
912833DE7_3	T-Strip	4/17/1995	8/15/2013	6695	\$1,703	0.000	25.276	7.646	\$430,450.28		430,450.28
3133X18V8_1	FHLB Note	10/9/2003	9/16/2013	3630	\$2,885	4.500	97.944	4.762	\$2,825,684.40	6,130.63	2,831,815.03
3133M8T53_1	FHLB Note	7/13/2000	5/27/2014	5066	\$695	6.335	91.970	7.261	\$639,191.50	5,625.83	644,817.33
31331NJU9_1	FFCB Note	1/18/2001	9/30/2014	5003	\$700	8.160	118.672	6.124	\$830,704.00	17,136.00	847,840.00
31359MEL3_1	FNMA Strip	7/18/2002	6/1/2017	5432	\$4,158	0.000	40.134	6.234	\$1,668,771.72		1,668,771.72
31358C7N0_1	FNMA Strip	1/28/2004	11/15/2017	5040	\$3,795	0.000	47.936	5.400	\$1,819,170.78		1,819,170.78
31358C7Q3_1	FNMA Strip	1/28/2004	11/15/2018	5405	\$2,642	0.000	44.722	5.512	\$1,181,546.44		1,181,546.44
31331H2R7_1	FFCB Note	2/22/2001	9/14/2020	7144	\$1,490	6.900	106.629	6.305	\$1,588,774.36	45,122.17	1,633,896.53
312902DF3_1	FHLMC Note	7/30/2001	9/15/2022	7717	\$615	7.690	116.425	6.274	\$716,013.75	17,735.06	733,748.81
31331H2S5_1	FFCB Note	12/18/2000	9/12/2025	9034	\$1,744	6.890	107.622	6.277	\$1,876,927.68	32,043.09	1,908,970.77
31331H2S5_2	FFCB Note	7/30/2001	9/12/2025	8810	\$4,098	6.890	105.843	6.409	\$4,337,446.14	108,235.01	4,445,681.15
PORTFOLIO : STP Decommissioning Trust - Unit 2 Totals											
CUSIP COUNT: 39				3,274	\$119,073			5.309	\$102,704,322.54	\$839,919.85	\$103,544,242.39

STP Decommissioning Trust - Fuel Storage

CUSIP	Description	Purchase Date	Maturity Date	Days Held	Par Value (000s)	Coupon	Purchase Price	BEY @ Cost	Principal Cost	Accrued Interest Purchased	Total Purchase Cost
31331HV20_1	FFCB Note	4/12/2002	6/12/2007	1887	\$185	7.250	109.430	5.144	\$202,445.50	4,470.83	206,916.33
3133X0E88_1	FHLB Note	8/6/2003	8/15/2007	1470	\$815	3.125	99.314	3.308	\$809,409.10	353.73	809,762.83
31358CS31_1	FNMA Strip	1/7/2002	11/15/2007	2138	\$72	0.000	73.663	5.288	\$53,037.36		53,037.36
31364DHW9_1	FNMA Strip	8/13/2002	10/8/2008	2248	\$178	0.000	76.488	4.403	\$136,148.41		136,148.41
31358C6X9_1	FNMA Strip	10/22/2001	5/15/2010	3127	\$326	0.000	63.759	5.325	\$207,853.69		207,853.69
31359YBM8_1	FNMA Strip	12/31/2001	1/15/2011	3302	\$43	0.000	57.940	6.130	\$24,914.21		24,914.21
31359YBN6_1	FNMA Strip	12/31/2001	7/15/2011	3483	\$35	0.000	55.906	6.190	\$19,566.99		19,566.99
3133MKGH4_1	FHLB Note	12/31/2001	11/15/2011	3608	\$160	5.625	97.737	5.930	\$156,379.20	675.00	157,054.20
31359YBQ9_1	FNMA Strip	4/22/2004	7/15/2012	3006	\$133	0.000	67.434	4.844	\$89,687.22		89,687.22
31358C7C4_1	FNMA Strip	4/22/2004	11/15/2012	3129	\$197	0.000	65.991	4.913	\$130,002.27		130,002.27
3133X1BV8_1	FHLB Note	10/9/2003	9/16/2013	3630	\$210	4.500	97.944	4.762	\$205,682.40	446.25	206,128.65
31359MEL3_1	FNMA Strip	7/18/2002	6/1/2017	5432	\$2,153	0.000	40.134	6.234	\$864,085.02		864,085.02
31358C7N0_1	FNMA Strip	1/28/2004	11/15/2017	5040	\$424	0.000	47.936	5.400	\$203,248.59		203,248.59
31331H2R7_1	FFCB Note	2/22/2001	9/14/2020	7144	\$165	6.900	106.629	6.305	\$175,938.10	4,996.75	180,934.85
312902DF3_1	FHLMC Note	7/30/2001	9/15/2022	7717	\$25	7.690	116.425	6.274	\$29,106.25	720.94	29,827.19
31331H2S5_2	FFCB Note	7/30/2001	9/12/2025	8810	\$151	6.890	105.843	6.409	\$159,822.93	3,988.16	163,811.09
PORTFOLIO : STP Decommissioning Trust - Fuel Storage Totals											
CUSIP COUNT: 16				3,861	\$5,272			5.122	\$3,467,327.24	\$15,651.66	\$3,482,978.90

ATTACHMENT D

FEE SCHEDULE

Exhibit A
Investment Management and Trustee/Custody Fee Schedule

Market Value	Annual Fee Rate
Total Market Value of Managed Assets	<u>[proprietary information redacted]</u>
Minimum Annual Fee	<u>[proprietary information redacted]</u>

The Investment Management Fee shall be determined monthly.
Fees for any service not identified shall be negotiated.

ATTACHMENT E

**CITY PUBLIC SERVICE
DECOMMISSIONING MASTER TRUST
FOR THE SOUTH TEXAS PROJECT
INVESTMENT POLICY**

Enclosure 2

Second Amendment to Restated Decommissioning Master Trust Agreement

Second Amendment to
Restated Decommissioning Master Trust Agreement
for the South Texas Project

The City Public Service Restated Decommissioning Master Trust Agreement for the South Texas Project, signed December 22, 2000, is hereby amended, as follows:

1. Sections 1.1(3), 1.1(9), 2.2(2), and 3.4 are amended to delete reference to the "Secretary-Treasurer" and "Assistant Secretary-Treasurer" and replace that reference with "Treasurer" and "Assistant Treasurer," respectively.
2. Section 2.2(3) is amended as follows and new Section 2.2(4) is added as follows:

(3) ~~Payment of Decommissioning or Administrative Costs.~~ The Trustee shall pay ~~Decommissioning Costs or Administrative Costs~~ when a completed Disbursement Certificate, signed by two Authorized CPS Representatives as provided in Paragraph 2.2(2), is filed with the Trustee. The invoice or bill for such costs shall be attached to the Certificate, if such invoice or bill is available. The Trustee shall retain at least one copy of each Disbursement Certificate, including attachments, received pursuant to this Section 2.2.

(4) Payment of Administrative Costs. The Trustee shall pay Administrative Costs from the Master Trust, which shall be limited to such Administrative Costs as are delineated in the Investment Management Agreement or the Trustee Agreement. Such Administrative Costs shall be accounted for in an invoice to be issued monthly to CPS. The Trustee shall be authorized to make payment of such Administrative Costs ten (10) business days after issuance of such invoice unless the invoiced amount is objected to in writing by CPS.

3. Add new Section 2.12 to read as follows:

2.12 Notice Regarding Disbursements or Payments. Except for (i) payments of ordinary administrative costs (including taxes) and other incidental expenses of the fund (including legal, accounting, actuarial, and trustee expenses) in connection with the operation of the fund, (ii) withdrawals being made under 10 CFR 50.82(a)(8), (iii) adjustments for Erroneous Contributions pursuant to Section 2.3 hereof, and (iv) transfer of monies between the Fund Accounts in accordance with Section 2.4 hereof (pursuant to a Certificate of CPS that such transfer is necessary to effectuate the purposes of this Master Trust), no disbursement or payment may be made from the trust until written notice of the intention to make a disbursement or payment has been given to the Director, Office of Nuclear Reactor Regulation, or the Director, Office of Nuclear Material Safety and Safeguards, as applicable, at least 30 working days before the date of the intended disbursement or payment. The

disbursement or payment from the trust may be made following the 30-working day notice period if no written notice of objection from the Director, Office of Nuclear Reactor Regulation, or the Director, Office of Nuclear Material Safety and Safeguards, as applicable, is received by the Trustee or the Company within the notice period. The required notice may be made by the Trustee or on the Trustee's behalf. No such notice is required for withdrawals being made pursuant to 10 CFR 50.82(a)(8)(ii), including withdrawals made during the operating life of the plant to be used for decommissioning planning. In addition, no such notice is required to be made to the NRC after decommissioning has begun and withdrawals are being made under 10 CFR 50.82(a)(8).

4. Amend Section 3.1 to read as follows:

3.1 Management Duties. CPS, by and through the Authorized CPS Representatives as specified in Paragraph 1.1(3), shall ~~direct and manage~~oversee the investments of the Master Trust and perform all duties attendant thereto, including, but not limited to, (a) the direction of the investment of assets of the Master Trust, (b) the preservation and protection of any interests of the Master Trust and its assets, (c) the appointment of Investment Manager(s), who may include the Trustee, who are independent and outside of the administrative control of CPS, who shall make day-to-day decisions regarding investments of the Master Trust consistent with the applicable laws and regulations governing such Master Trust investments ~~(if one is appointed)~~, and (d) the execution of whatever contracts, agreements, or other documents it deems necessary to manage the Funds of the Master Trust. CPS may retain the services of such professional advisors, legal counsel, and administrative support as it deems necessary to carry out its responsibilities. The reasonable fees and/or compensation for any such assistance CPS may desire to retain shall be regarded as Administrative Costs payable in accordance with Section 2.2 as approved by CPS.

5. Amend Section 5.1 to read as follows:

5.1 Appointment/Removal/Resignation of Investment Manager(s). CPS may direct the investment of all or a specified portion of the Master Trust; provided, however, that day-to-day decisions regarding investments of the Master Trust shall be made by an independent Investment Manager. Additionally, CPS may appoint one or more Investment Managers by separate agreement to direct the investment of all or a specified portion of the Master Trust. ~~The Trustee or its affiliates may not serve in the capacity of Investment Manager.~~ The appointment of the Investment Manager(s) shall be made in accordance with procedures specified by CPS. CPS shall provide written notice of any appointment of an Investment Manager(s) to the Trustee. The Investment Manager(s) shall certify in writing to CPS and the Trustee that it is qualified to act in the capacity provided under an Investment Management


Agreement, shall accept its appointment as Investment Manager in writing, shall certify the identity of the person or persons authorized to give instruction or directions to the Trustee on its behalf, including specimen signatures, and shall undertake to perform the duties imposed on it under an Investment Management Agreement executed by it and CPS. The Trustee may continue to rely upon all such certifications unless otherwise notified in writing by CPS or the Investment Manager(s), as the case may be.

6. Amend the introductory sentence of Section 5.4 to read as follows:


5.4 CPS' Investment Management Powers. CPS', ~~unless it has appointed an~~ Investment Manager, shall have the following investment management powers, all of which are to be executed in a fiduciary capacity and in the best interest of CPS, and which are to exercised by CPS in its discretion:

City Public Service

Attest:

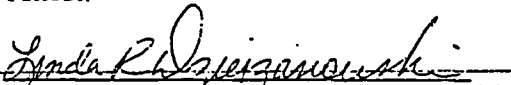

David C. Jungman
Assistant Treasurer

By:

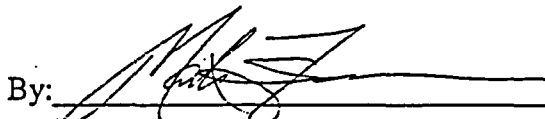

Richard E. Williamson, Treasurer

Frost National Bank, Trustee

Attest:


Name: LINDA R. DZIERZANOWSKI
Title: Supervisor, Finance Policy

By:


Name: MARK FREEMAN
Title: EVP

Enclosure 3

**Redline Reflecting Changes Associated with Amendment 2 to
Restated Decommissioning Master Trust Agreement**

REDLINE REFLECTING CHANGES ASSOCIATED WITH AMENDMENT 2

(which supersedes changes in Amendment 1)

**CITY PUBLIC SERVICE
RESTATED DECOMMISSIONING MASTER TRUST
AGREEMENT FOR THE SOUTH TEXAS PROJECT**

City Public Service of San Antonio (hereinafter called "CPS"), having received applications from qualified banks to serve as the Trustee of the Decommissioning Master Trust, beginning January 1, 2001, and Frost National Bank (hereinafter called the "Trustee") having submitted an application which was found by CPS to be the best and most acceptable application and the same having been accepted by CPS, it is agreed by and between CPS and the Trustee as follows:

ARTICLE 1 - DEFINITIONS, PURPOSE AND NAME

1.1 **Definitions.** As used in this Decommissioning Master Trust Agreement, the following terms shall have the following meanings:

- (1) "Administrative Costs" shall mean all ordinary and necessary expenses and other incidental costs incurred in connection with the operation of the Master Trust and the Funds, including, but not limited to, Trustee fees, Investment Manager fees, the fees and/or compensation of any professional advisors, legal counsel or administrative support hired by CPS as provided in Section 3.1 or any other fees approved in advance by CPS which are incurred in the discharge of the Trustee's fiduciary obligations under this Agreement.
- (2) "Agreement" shall mean this Restated Decommissioning Master Trust Agreement For The South Texas Project as it may from time to time be amended, modified or supplemented.

- (3) "Authorized CPS Representatives" shall mean the General Manager & CEO, the ~~Secretary-Treasurer~~Treasurer, and the Assistant ~~Secretary-Treasurer~~Treasurer of CPS, or any other person designated as an Authorized Representative by a Certificate filed with the Trustee as approved by a CPS Board of Trustee Resolution (included as Attachment A).
- (4) "Board of Trustees" shall mean the Board of Trustees of CPS.
- (5) "Certificate" or "Certification" shall mean a written Certificate signed by two Authorized CPS Representatives.
- (6) "Decommissioning Contributions" shall mean all amounts contributed to the Funds by CPS for Decommissioning Costs of the Plant.
- (7) "Decommissioning Costs" shall mean the costs incurred in connection with entombment, decontamination, dismantlement, removal and disposal of the structures, systems and components of a Unit, including all costs incurred in connection with the preparation for decommissioning, such as engineering and other planning expenses, and all expenses incurred with respect to a Unit after actual decommissioning occurs, such as physical security and radiation monitoring expenses, to the extent such costs are incurred pursuant to a decommissioning plan for a Unit approved by the Nuclear Regulatory Commission (the "NRC").
- (8) "Disbursements" shall mean payments to CPS or any other person or organization which provides (1) goods or services used in decommissioning the Plant, or (2) goods and services associated with the administration of the Master Trust.

- (9) "Disbursement Certificate" shall mean a document authorizing disbursements from the funds properly completed and executed by two Authorized CPS Representatives (one of which must be the General Manager & CEO or ~~Secretary-Treasurer~~Treasurer) and substantially in the form of Attachment B of this Agreement.
- (10) "Erroneous Contribution" shall have the meaning set forth in Section 2.3 of this Agreement.
- (11) "Funds" shall mean the South Texas Project Unit No. 1 Fund and the South Texas Project Unit No. 2 Fund and the South Texas Project Fuel Storage Fund, collectively.
- (12) "Fund Account" shall mean a separate account established pursuant to this Agreement and maintained by the Trustee for the South Texas Project Unit No. 1 Fund, the South Texas Project Unit No. 2 Fund, and the South Texas Project Fuel Storage Fund to account for all Decommissioning Contributions made to each Fund, all income and other increments of each Fund, and all disbursements from each Fund.
- (13) "Investment Manager(s)" shall mean the fiduciary specified in an Investment Management Agreement(s):
- (a) Which has been retained by CPS to manage, acquire, or dispose of any asset held in the Master Trust;
 - (b) Which is:
 - (i) registered as an investment adviser under the Investment Adviser Act of 1940, or
 - (ii) a bank, as defined in that Act, or

- (iii) an insurance company qualified to perform services described in subsection (a) above, under the laws of more than one state; and
 - (c) Which has acknowledged, in writing, that it is a fiduciary with respect to the Master Trust, that it is qualified to act under subsection (b) above, and that it has agreed to be bound by all of the terms, provisions and covenants of this Agreement.
- (14) "Investment Management Agreement(s)" shall mean the agreement(s) (if any) between CPS and any Investment Manager(s) selected by CPS, which agreement governs the investment management of all or a specified portion of the assets of the Master Trust.
 - (15) "Master Trust" shall mean the City Public Service Restated Decommissioning Master Trust for the South Texas Project established under this Agreement, which shall hold all contributions to any Fund, together with investments and reinvestments thereof and any income, earnings and appreciation thereon.
 - (16) "Plant" shall mean the South Texas Project, Unit Nos. 1 and 2, collectively.
 - (17) "South Texas Project" shall mean the nuclear fueled electric generating facilities owned by CPS and others in Matagorda County, Texas.
 - (18) "South Texas Project Unit No. 1" shall mean Unit No. 1 of the South Texas Project.
 - (19) "South Texas Project Unit No. 1 Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning South Texas Project Unit No. 1.
 - (20) "South Texas Project Unit No. 2" shall mean Unit No. 2 of the South Texas Project.

(21) "South Texas Project Unit No. 2 Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning South Texas Project Unit No. 2.

(22) "South Texas Project Fuel Storage" shall mean the fuel storage facilities of the South Texas Project.

(23) "South Texas Project Fuel Storage Fund" shall mean the Fund established and maintained under the Master Trust for fuel storage facilities during decommissioning period.

(24) "Trustee" shall mean the present organization designated to serve as Trustee of the Master Trust as well as any successor Trustee.

(25) "Unit" or "Units" shall mean either South Texas Nuclear Project Unit No. 1 or No. 2, singularly, or South Texas Nuclear Project Units No. 1 and No. 2, collectively.

1.2 Authorization. The Trustee and CPS hereby represent and warrant that each has full legal authority and is duly empowered to enter into and bind itself to the terms of this Agreement, and has taken all action necessary to authorize the execution of this Agreement by the officers and persons signing it. The Trustee also warrants that it has a net worth of at least \$100 million.

1.3 Master Trust Purpose. The exclusive purpose of this Master Trust is to provide monies for the decommissioning of the Plant consistent with 10 C.F.R., Part 50. In that regard, this Master Trust shall accumulate, invest, reinvest and hold monies for the decommissioning of the Units and related fuel storage to expend monies for that purpose.

1.4 Establishment of Master Trust. By execution of this Agreement, CPS:

- (1) establishes the Master Trust which shall initially consist of the Trust funds and investments listed in Attachment C, and such Decommissioning Contributions as subsequently may be delivered to the Trustee by CPS, investments and reinvestments thereof, and earnings and appreciation thereon; and
- (2) establishes the South Texas Project Unit No. 1 Fund, the South Texas Project Unit No. 2 Fund, and the South Texas Project Fuel Storage Fund each of which shall constitute a separate fund account consisting of the Decommissioning Contributions designated for each Fund as may be delivered to the Trustee by CPS, together with investments and reinvestments thereof and earnings and appreciation thereon.

1.5 Name of Master Trust. The Trust created under this Agreement shall be known as the "City Public Service Restated Decommissioning Master Trust for the South Texas Project."

ARTICLE 2 - DISPOSITIVE PROVISIONS

2.1 Additions to Master Trust. From time to time after the initial contribution to the Master Trust and prior to the termination of the Trust, CPS may make, and the Trustee shall accept, additional contributions.

2.2 Disbursements from Master Trust. The Trustee shall make Disbursements to pay Decommissioning Costs or Administrative Costs in accordance with the following procedures:

- (1) Authorized Representative. CPS shall promptly notify the Trustee of the designation of any person as an Authorized CPS Representative in addition to those defined under Paragraph 1.1(3) of this Agreement. The name of any person authorized to act on behalf of CPS shall be certified, with a specimen signature of such person, to the Trustee by CPS. The Trustee shall have no duty to inquire independently into or investigate the continued authority of any person to act as an Authorized CPS Representative. CPS shall provide the Trustee with written notice of the termination of any Authorized CPS Representative's authority.
- (2) Submission of Disbursement Certificate. Disbursement Certificates for Decommissioning Costs or Administrative Costs actually incurred by CPS and paid or payable to any person or organization or for reimbursement of Decommissioning Costs or Administrative Costs previously paid by CPS to any person or organization in connection with the decommissioning of the Plant or the administration of the Master Trust shall be submitted to the Trustee and must be signed by two Authorized CPS Representatives, one of whom must be the General Manager & CEO or the Secretary-TreasurerTreasurer.
- (3) Payment of Decommissioning or Administrative Costs. The Trustee shall pay Decommissioning Costs or Administrative Costs when a completed Disbursement Certificate, signed by two Authorized CPS Representatives as provided in Paragraph 2.2(2), is filed with the Trustee. The invoice or bill for such costs shall be attached to the Certificate, if such invoice or bill is available. The Trustee shall retain at least one copy of each Disbursement Certificate, including attachments, received pursuant to this Section 2.2.

(4) Payment of Administrative Costs. The Trustee shall pay Administrative Costs from the Master Trust, which shall be limited to such Administrative Costs as are delineated in the Investment Management Agreement or the Trustee Agreement. Such Administrative Costs shall be accounted for in an invoice to be issued monthly to CPS. The Trustee shall be authorized to make payment of such Administrative Costs ten (10) business days after issuance of such invoice unless the invoiced amount is objected to in writing by CPS.

2.3 Adjustments for Erroneous Contributions. The Trustee and CPS understand and agree that if any contribution made by CPS to any Fund from time to time is found by CPS to be made in error, upon verification of CPS setting forth the amount of the Erroneous Contribution, such Erroneous Contribution (together with any income accrued thereon as determined by CPS) shall be returned to CPS as specified in a Certification to the Trustee.

2.4 No Transfers Between Fund Accounts. The Trustee and CPS understand and agree that no transfer of monies is to occur between the Fund Accounts except when explicitly indicated by a Certificate of CPS that such transfer is necessary to effectuate the purposes of this Master Trust.

2.5 Designation of Funds. Upon: (a) the initial contribution to the Master Trust; (b) the remittance of subsequent contributions to the Master Trust pursuant to Section 2.1; (c) any disbursements from the Master Trust for Decommissioning Costs pursuant to Section 2.2 or for Administrative Costs pursuant to Section 3.1 or Paragraph 4.1(1); or (d) any adjustment to the Funds pursuant to Sections 2.3 or 2.4, CPS shall designate, by Certificate, the appropriate Fund Account(s) to be credited or debited by such

contribution, disbursement, or adjustment, and the Trustee shall credit or debit the appropriate Fund Account(s) in accordance with such Certificate.

2.6 Distribution of Income.

- (1) Generally. The Trustee shall not be precluded from pooling Decommissioning Contributions received for each of the Fund Accounts for investment purposes and may treat each Fund Account's Decommissioning Contributions as having received or having accrued a rateable portion of the Master Trust income in any year. However, all such contributions and income (and investments of such) must be reported separately on individual account statements for each Fund Account. No pooling of the Funds with any other funds controlled by the Trustee or to which the Trustee has access shall be allowed.
- (2) Principal and Income. All questions relating to the ascertainment of income and principal and the allocation of receipts and disbursements between income and principal shall be resolved by the Trustee in accordance with the provisions of Section 113.102 of the Texas Trust Code.
- (3) Transfer of Income to Principal. As of the end of each accounting year of the Master Trust as defined in Section 6.8, the income of the Master Trust, for purposes of all subsequent accounting years, shall be transferred and shall be incorporated into the principal of the Master Trust.

2.7 Transferability of Interest. The interest of CPS in the Master Trust is not transferable by CPS involuntarily nor is it subject to the claims of creditors of CPS, provided, however, that CPS and/or any creditor of CPS for which a Disbursement Certificate has been

properly completed and submitted to the Trustee by CPS may assert a claim, in court or otherwise, directly against the Master Trust in an amount not to exceed the amount specified on such Disbursement Certificate, if the Trustee does not disburse the amount of funds covered by the Disbursement Certificate within 90 days of its receipt by the Trustee. Nothing herein shall be construed to require a transfer of all or a part of CPS' interest in the Master Trust upon sale of all or a part of CPS' ownership interest in the Plant which is the subject of this Agreement. Should a sale of all or a part of CPS' ownership interest in the one or more Units of the Plant be consummated, the Fund Account(s) established for such Unit or Units shall be distributed as provided in Section 2.10 of this Agreement.

2.8 Irrevocability and Termination of Master Trust. Subject to the right of the parties to amend this Agreement as provided in Section 2.11, this Master Trust shall be irrevocable and will terminate (in whole or in part) upon receipt by the Trustee of a Certificate from CPS stating the extent of the termination and (i) that the decommissioning of the Plant or one of the Units has been completed; (ii) that the NRC has terminated the licenses of one or both Units; or (iii) that CPS has disposed of all or a part of its ownership interest in one or both Units of the Plant.

2.9 Termination of Funds of Master Trust. One or more of the Funds which are the subject of this Master Trust shall terminate upon the following:

- (1) final payment of all Decommissioning Costs and/or Administrative Costs associated with one or both Units;
- (2) termination of the licenses of one or both Units by the NRC; or
- (3) the disposition by CPS of all or a part of its ownership interest in one or both Units.

2.10 Distribution of Master Trust Upon Termination. Upon partial or complete termination of this Master Trust, the Trustee shall assist, if necessary, in liquidating the assets of the Master Trust, and thereafter distribute the then-remaining assets of the Master Trust (including accrued, accumulated, and undistributed net income) to the extent of the termination less final Administrative Costs to CPS.

2.11 Alterations and Amendments. The Trustee and CPS understand and agree that modifications or amendments may be required to this Agreement from time to time to effectuate the purpose of this Master Trust, including, but not limited to, amendments necessary to comply with requirements of the NRC, amendments consistent with qualifying income from trust investments as tax exempt under the Internal Revenue Code, or other amendments not inconsistent with the use of trust funds solely for decommissioning purposes as provided herein. CPS reserves the right at any time to amend in whole or in part any or all of the provisions of this Agreement by an instrument in writing duly acknowledged and delivered to the Trustee; provided, however, that no such amendment which affects the rights, duties, responsibilities or immunities of the Trustee may be made without its consent.

2.12 Notice Regarding Disbursements or Payments. Except for (i) payments of ordinary Administrative Costs (including taxes) and other incidental expenses of the fund (including legal, accounting, actuarial, and trustee expenses) in connection with the operation of the fund, (ii) withdrawals being made under 10 CFR 50.82(a)(8), (iii) adjustments for Erroneous Contributions pursuant to Section 2.3 hereof, and (iv) transfer of monies between the Fund Accounts in accordance with Section 2.4 hereof (pursuant to a Certificate of CPS that such transfer is necessary to effectuate the purposes of this Master Trust), no disbursement or payment may be made from the trust until written

notice of the intention to make a disbursement or payment has been given to the Director, Office of Nuclear Reactor Regulation, or the Director, Office of Nuclear Material Safety and Safeguards, as applicable, at least 30 working days before the date of the intended disbursement or payment. The disbursement or payment from the trust may be made following the 30-working day notice period if no written notice of objection from the Director, Office of Nuclear Reactor Regulation, or the Director, Office of Nuclear Material Safety and Safeguards, as applicable, is received by the Trustee or the Company within the notice period. The required notice may be made by the Trustee or on the Trustee's behalf. No such notice is required for withdrawals being made pursuant to 10 CFR 50.82(a)(8)(ii), including withdrawals made during the operating life of the plant to be used for decommissioning planning. In addition, no such notice is required to be made to the NRC after decommissioning has begun and withdrawals are being made under 10 CFR 50.82(a)(8).

ARTICLE 3 - TRUST MANAGEMENT AND ADMINISTRATION

- 3.1 Management Duties. CPS, by and through the Authorized CPS Representatives as specified in Paragraph 1.1(3), shall ~~direct and manage~~ oversee the investments of the Master Trust and perform all duties attendant thereto, including, but not limited to, (a) the direction of the investment of assets of the Master Trust, (b) the preservation and protection of any interests of the Master Trust and its assets, (c) the appointment of Investment Manager(s) ~~(if one is appointed)~~, who may include the Trustee, who are independent and outside of the administrative control of CPS, who shall make day-to-day decisions regarding investments of the Master Trust consistent with the applicable laws and regulations governing such Master Trust investments, and (d) the execution of whatever contracts, agreements, or other documents it deems necessary to manage the Funds of the Master Trust. CPS may retain the services of such professional advisors,

legal counsel, and administrative support as it deems necessary to carry out its responsibilities. The reasonable fees and/or compensation for any such assistance CPS may desire to retain shall be regarded as Administrative Costs payable in accordance with Section 2.2 as approved by CPS.

3.2 Evaluation of Trustee and Investment Manager(s). CPS shall evaluate the performance of the Trustee and any Investment Manager(s) annually and submit a written report to the CPS Board of Trustees. The report shall include, at a minimum:

- (1) A finding, with supporting analysis, as to whether the current Trustee and Investment Manager(s) should be retained or replaced;
- (2) A justification for the use of one or more Investment Manager(s) (if applicable); and
- (3) An itemized accounting of the Master Trust administration expenses and their basis, and all other expenditures from the Master Trust.

At least once every five (5) years, CPS shall evaluate potential substitute Trustees and submit a report to the CPS Board of Trustees. This report may be combined with the annual report described above and shall include, at a minimum:

- (1) A description of CPS' attempts to solicit proposals from other firms which can perform the trust duties; and
- (2) An evaluation of at least three (3) organizations which could potentially replace the current Trustee.

Notwithstanding the paragraph above, CPS shall not be required to solicit proposals to replace a Trustee(s) who, in the judgment of CPS, is performing adequately and has served as Trustee for less than five (5) years.

3.3 Limitations on Trustee Actions. The Trustee shall not take any action or participate in any transaction which would violate the terms and conditions of any instructions provided by CPS pursuant to Section 3.4 so long as the terms and conditions are consistent with this Agreement.

3.4 Instructions to Trustee. All orders, directions, requests, instructions and Certifications by CPS to the Trustee shall be in writing, signed by two Authorized CPS Representatives (one of which must be the General Manager & CEO or the ~~Secretary-Treasurer~~ Treasurer). The Trustee shall have the right to assume, in the absence of written notice to the contrary, that no event constituting a change or a termination of the authority of any person to act on behalf of CPS has occurred. The Trustee shall have no duty to act in the absence of such orders, directions, requests, instructions, and Certifications from CPS.

ARTICLE 4 - TRUSTEE

4.1 General Powers. The Trustee shall hold all property of the Funds in trust in the Master Trust. The Trustee shall have, with respect to the Master Trust, the following powers, all of which are to be exercised in a fiduciary capacity and in the best interests of CPS, and which are to be exercised as the Trustee, acting in such fiduciary capacity, in its discretion, shall determine. Except as otherwise provided, this list is intended in no way to limit the powers of the office.

- (1) Payment of Administrative Costs. To pay all Administrative Costs as defined in Paragraph 1.1(1), but only upon written authorization of CPS.
- (2) Registration of Securities. To register and to hold in trust any bonds, securities, and/or other property in the Funds in the name of the Master Trust or to deposit or arrange for deposit of any securities issued by the U. S. government, or any agency or instrumentality thereof, in trust in book entry with a Federal Reserve Bank; provided, however, that at all times the books and records of the Trustee show that all such securities are part of the Master Trust.
- (3) Receipt of Money. To collect and receive any and all money or other property due to the Master Trust or any fund and to give full receipt therefor.
- (4) Resolution of Claims. To commence or defend suits or legal proceedings, to protect any interest of the Trustee, providing such action has been previously approved by CPS and, with the permission of CPS, to represent the Trust in all suits or legal proceedings in any court or before any other body or tribunal.
- (5) Location of Assets. To hold any property belonging to the Master Trust at any place in the United States with the prior approval of CPS.
- (6) Retention of Professional Services. To execute any of the powers under this Agreement and to perform the duties required of it hereunder by or through its employees, agents, attorneys, or receivers, except as limited by Section 4.1 (10) of this Trust Agreement. Any costs and expenses of its employees and agents or any costs and expenses associated with the retention of professional services by the Trustee shall be borne by the Trustee.

- (7) Powers of Trustee to Continue Until Final Distribution. To exercise any powers after the date on which the principal and income of the Master Trust shall have become distributable and until such time as the entire principal and income of the Master Trust shall have been actually distributed by the Trustee. It is intended that distribution of the Master Trust will occur as soon as possible upon termination of the Master Trust, subject, however, to the limitations contained in Sections 2.9 and 2.10.
- (8) Exercise of Powers. To do any and all other acts which the Trustee shall deem proper to effectuate the powers specifically conferred upon it by this Agreement, provided, however, that the Trustee may not do any act or knowingly engage in any transaction which would:
- (a) Contravene any provision of this Agreement; or
 - (b) Violate the terms and conditions of any instructions, Certifications, or other directions provided by CPS.
- (9) Texas Trust Code. To exercise all rights, powers, options and privileges now or hereafter granted to, provided for or vested in Trustees under the Texas Trust Code, except such as conflict with the terms of this Agreement or applicable law. As far as possible, no subsequent legislation or revelation shall be in limitation of the rights, powers, options or privileges granted to the Trustee under this Agreement or in the Texas Trust Code as it exists at the time of the execution of this Agreement or any subsequent amendment.
- (10) Subcustodians. To provide trustee, custodial and subcustodial services for all investments of the Funds, either directly or through its affiliates or divisions, unless the Trustee has obtained the prior written approval of CPS to use

another entity as a subcustodian or subtrustee. Notwithstanding the above, without the prior written approval of CPS the Trustee may entrust property of the Funds to national or regional depositories or clearing agencies such as the Depository Trust Company and Federal Reserve Banks provided that (1) the property is held in an account which contains only property held by the Trustee as custodian or trustee for its customers; (2) the property is separately identified on the books of the Trustee as being held in its capacity as Trustee of the Master Trust; and (3) the property so held is subject only to the instructions of the Trustee, which in turn shall be subject to the provisions of this Master Trust Agreement.

4.2 Designation and Qualification of Successor Trustee(s) by CPS. CPS shall have the power to appoint the Trustee and all successor Trustees for the Master Trust. CPS by this Agreement has appointed the corporate fiduciary named herein having all requisite corporate power and authority to act as the sole Trustee. The Trustee shall act in accordance with the directions and Certifications provided to it by CPS under the terms of this Agreement. The Trustee shall be removed and replaced with a successor Trustee as provided below:

- (1) In the event that the Trustee then serving shall: (a) relinquish or suffer a revocation of its authority to act as a fiduciary; (b) become insolvent or admit in writing its insolvency; (c) be unable or admit in writing its inability to pay its debts as such debts mature; (d) make a general assignment for the benefit of creditors; (e) have an involuntary petition in bankruptcy filed against it; (f) commence a case under or otherwise seek to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation, law, statute or proceeding; or (g) be subject to receivership under

the authority of the Federal Deposit Insurance Corporation or the Comptroller of the Currency, the Trustee shall automatically be replaced and shall immediately transfer and pay over to such successor Trustee the monies and assets then constituting the Master Trust and its Funds to a successor Trustee appointed by the General Manager & CEO of CPS and in accordance with any instructions contained in a Certificate of transfer issued by CPS.

- (2) In the event that the Trustee then serving shall fail to meet the financial criteria and qualifications set by CPS from time to time, CPS may immediately remove the Trustee upon written notice delivered to such Trustee and the Trustee shall immediately transfer and pay over to such successor Trustee the monies and assets then constituting the Master Trust and its Funds to a successor Trustee appointed by the General Manager & CEO of CPS and in accordance with any instructions contained in a Certificate of transfer issued by CPS.
- (3) In any instances other than those described in Sections 4.2 (1) and (2), CPS shall have the right to remove the Trustee then serving at any time and for any or no reason and appoint a successor Trustee upon thirty (30) days notice in writing to the Trustee, or upon such shorter notice as may be acceptable to the Trustee. In these instances, the successor Trustee shall accept its appointment to serve as Trustee of this Master Trust by executing a written and acknowledged acceptance delivered to CPS, which acceptance shall also specify the date on which the successor Trustee will assume administration of the Master Trust, at least ten (10) business days before such appointment. CPS shall provide a copy of this acceptance to the Trustee then serving. The Trustee then serving, on the effective date of the transfer, shall assign, transfer

and pay over to such successor Trustee the monies and assets then constituting the Master Trust and its Funds.

- (4) The CPS Board of Trustees shall ratify the appointment of any successor Trustee selected by the General Manager & CEO of CPS, or select another successor Trustee. Any successor Trustee shall have all the rights, powers, duties and obligations of its predecessor in trust hereunder, with like effect as if originally named as Trustee hereunder.

- 4.3 Resignation. The Trustee or any successor Trustee may resign at any time by written notice which shall be delivered to CPS not less than ninety (90) days prior to the effective date of the Trustee's resignation or upon such shorter notice as may be acceptable to CPS. CPS shall appoint a successor Trustee effective as of the effective date of the resignation, and the Trustee then serving shall assign, transfer and pay over to such successor Trustee the monies and assets then constituting the Master Trust and its Funds.

If for any reason CPS cannot or does not act in the event of the resignation of the Trustee, the Trustee then serving may apply to a court of competent jurisdiction for the appointment of a successor Trustee. Any reasonable expenses incurred by the Trustee in connection with the appointment of a successor Trustee by the court shall be deemed to be Administrative Costs payable in accordance with Paragraph 4.1(1).

- 4.4 Merger of Trustee. Any corporation into which the Trustee may be merged or with which it may be consolidated, any corporation to which Trustee transfers all or substantially all of its trust business or any corporation resulting from any merger or consolidation to which the Trustee shall be a party, shall be the successor Trustee under this Agreement

without the necessity of executing or filing any additional acceptance of this Agreement or the performance of any further act on the part of any parties hereto.

- 4.5 Compensation. The Trustee shall be entitled to compensation from the Master Trust per the fee schedule set forth in its entirety in Attachment D. This fee schedule is guaranteed for a period of five (5) years. The fee schedule may be revised upon mutual agreement of CPS and the Trustee at the end of this period.

All Trustee fees shall constitute Administrative Costs, shall be billed by the Trustee on a quarterly basis and shall be forwarded to CPS at the address provided in Section 6.5. If such Trustee fees remain unpaid after the expiration of thirty (30) days from the date of the billing and CPS does not object to the billing during these thirty (30) days, the Trustee is then authorized to deduct such as Administrative Costs from the Master Trust. If billed but unpaid Administrative Costs are deducted from the Funds constituting the Master Trust, CPS reserves the right to reimburse the Funds of the Master Trust for such Administrative Costs which were deducted.

- 4.6 Maintenance of Fund Accounts. The Trustee shall maintain a separate Fund Account for each Fund established under Section 1.4 of this Agreement to account for Decommissioning Contributions made to each Fund Account, all income and other increments earned in each Fund Account, and disbursements from each Fund Account subject to the provisions of Section 2.5.

- 4.7 Account Statements. The Trustee shall present financial statements to CPS on a monthly basis (within ten (10) business days following the end of each month), or at such other frequency as CPS shall from time to time require. The financial statements shall show (a) the financial condition of the Master Trust, including, without limitation, beginning and ending Fund balances, all contributions, investments, income received, disbursements

made (including Administrative Costs) and all other transactions hereunder, for the statement period; (b) a description of all securities and investments purchased and sold, with the cost and net proceeds of such purchases or sales; and (c) all cash, securities and other property held by each Fund Account at the end of the period and providing a valuation of such property at such period end. All accounts, books and records relating to the Master Trust and the Fund Accounts shall be open at all reasonable times to inspection by CPS or by any other person designated by CPS. CPS shall assume responsibility for employing independent certified public accountants to audit the financial statements of the Master Trust not less frequently than annually.

Within thirty (30) days following the close of the Master Trust's accounting year as defined in Section 6.8, the Trustee shall prepare and furnish to CPS a written report setting forth with respect to each Fund beginning and ending Fund balances, all contributions, investments, receipts, disbursements and other transactions effected by it during the preceding fiscal year, including a description of all securities and investments purchased and sold, with the cost and net proceeds of such purchases or sales, showing all cash, securities and other property held by each Fund Account at the end of the year and providing a valuation of such property at such year end.

Within sixty (60) days following the removal or resignation of a Trustee as provided in Sections 4.2, 4.3 and 4.4, the Trustee shall prepare and furnish to CPS and to any successor Trustee a written report containing all of the information required for fiscal year-end statements with respect to the period from the close of the previous fiscal year to the date of removal or resignation.

Copies of all records relating to the Master Trust and each of the Fund Accounts shall be maintained by the Trustee until the termination of the Master Trust and distribution of all

of the assets of the Master Trust (even if the Trustee is not then serving as Trustee). Such copies may be maintained on microfilm or microfiche.

- 4.8 Liability. The Trustee shall be liable for the acts, omissions or defaults of its officers, employees and agents. Unless the Trustee participates in or undertakes to conceal an act or omission of CPS or an Investment Manager(s), knowing such act or omission to be a breach of the Agreement by CPS or the fiduciary responsibility of an Investment Manager(s), the Trustee shall be under no liability by reason of any action taken or not taken by it in accordance with any Certification or other writing of CPS or any Investment Manager(s), provided such directions and/or instructions contained in a Certification or other writing are necessary and proper to effectuate and carry out the purpose of the Master Trust and the powers granted under this Agreement or any Investment Management Agreement. In any event, the Trustee shall be under no liability for any loss of any kind by reason of changes in value of the authorized investments purchased, sold, or retained by CPS or any Investment Manager(s), nor for the risk or diversification of the portfolio, nor for the turnover of the investments.

The Trustee is prohibited from doing any act or engaging in any transaction that would violate the terms and conditions of any instructions provided by written Certificate or other writing of CPS, or contravening any provision of this Agreement. Upon receipt of notice of either (a) instructions and/or Certifications of CPS to the Trustee, or (b) acts or transactions CPS believes constitute a violation by the Trustee of the provisions of this Agreement, the Trustee shall follow the instructions and/or Certifications of CPS, and/or cease and desist from the acts or transactions identified in such Certification or writing as violating the provisions of this Agreement. To the extent the Trustee fails to follow the instructions and/or Certifications of CPS, or continues with any act or transaction identified in such Certification or writing as violating the provisions of this Agreement,

from the date of receipt of the Certification or writing providing the instructions and/or notice of violation of the provisions of this Agreement, the Trustee shall be liable for all consequences resulting from such failure. Notwithstanding the foregoing, the Trustee shall be liable for all consequences resulting from any violation by the Trustee of the provisions of this Agreement, regardless of whether notice thereof was provided by CPS, and as of the date of such violation.

ARTICLE 5 - INVESTMENTS AND INVESTMENT POWERS

5.1 Appointment/Removal/Resignation of Investment Manager(s). CPS may direct the investment of all or a specified portion of the Master Trust; provided, however, that day-to-day decisions regarding investments of the Master Trust shall be made by an independent Investment Manager. Additionally, CPS may appoint one or more Investment Managers by separate agreement to direct the investment of all or a specified portion of the Master Trust. ~~The Trustee or its affiliates may not serve in the capacity of Investment Manager.~~ The appointment of the Investment Manager(s) shall be made in accordance with procedures specified by CPS. CPS shall provide written notice of any appointment of an Investment Manager(s) to the Trustee. The Investment Manager(s) shall certify in writing to CPS and the Trustee that it is qualified to act in the capacity provided under an Investment Management Agreement, shall accept its appointment as Investment Manager in writing, shall certify the identity of the person or persons authorized to give instruction or directions to the Trustee on its behalf, including specimen signatures, and shall undertake to perform the duties imposed on it under an Investment Management Agreement executed by it and CPS. The Trustee may continue to rely upon all such certifications unless otherwise notified in writing by CPS or the Investment Manager(s), as the case may be.

CPS shall also have the right to remove any appointed Investment Manager. In the event that an Investment Manager should resign or be removed, CPS shall manage the portion of the Trust previously managed by said Investment Manager pursuant to the provisions of this Trust unless the Trustee is notified of the appointment of another Investment Manager with respect to such portion.

5.2 Investment Direction by CPS and/or Investment Manager(s). CPS and/or any Investment Manager(s) appointed by CPS to manage all or a specified portion of the Master Trust shall have authority to manage and direct the acquisition and disposition of the assets of all or a specified portion of the Master Trust over which it has designated investment authority. Only investments specified in Paragraph 5.4(b) of this Master Trust are authorized trust investments. CPS and/or the Investment Manager(s) shall have the power and authority, exercisable in its sole discretion at any time, and from time to time, to issue and place orders for the purchase or sale of Fund securities directly with brokers or dealers. The Trustee, upon proper notification from CPS or an Investment manager, shall have the authority to, and shall execute, settle and deliver in accordance with the appropriate trading authorizations. Written notification of the issuance of each authorization shall be given promptly to the Trustee by CPS or the Investment Manager(s), and CPS or the Investment Manager(s) shall cause the execution of such order to be confirmed in writing to the Trustee by the broker or dealer.

The authority of any Investment Manager(s) and the terms and conditions of the appointment and retention of any Investment Manager(s) shall be the sole responsibility of CPS. Any duty of supervision or review of the acts, omissions or overall performance of any Investment Manager(s), other than those necessary and proper to effectuate and carry out the purpose of the Master Trust and powers granted under this Agreement or any Investment Management Agreement, shall be the exclusive responsibility of CPS. The Trustee shall have no duty to make suggestions to any Investment Manager(s) or to CPS with respect to the exercise of or the failure to exercise any power by the Investment Manager(s), except that the Trustee shall have the duty to review any securities or other assets purchased by CPS or any Investment Manager(s) to ensure compliance and conformity with investment restrictions as provided in Paragraph 5.4(b) of this

Agreement and/or any of the relevant investment provisions of any Investment Management Agreement between CPS and any Investment Manager.

5.3 Trustee's Investment Powers. The Trustee acknowledges and recognizes the authority of CPS and/or the Investment Manager(s) to manage and to direct the investment and reinvestment of the assets of the Master Trust as provided in Sections 3.1 and 5.2 of this Agreement and/or pursuant to an Investment Management Agreement executed between CPS and an Investment Manager(s). The Trustee agrees to cooperate with CPS and/or the Investment Manager(s) as necessary to facilitate the exercise of these powers. CPS directs the Trustee, without further written authorization by CPS, to invest cash balances on a daily basis in interest-bearing, fully collateralized accounts, or other investments which are authorized investments under Chapter 2256 of the Texas Government Code, as it may be amended from time to time, including a fiduciary money market fund, until directed to do otherwise by CPS and/or an Investment Manager.

5.4 CPS' Investment Management Powers. CPS~~, unless it has appointed an~~ Investment Manager, shall have the following investment management powers, all of which are to be executed in a fiduciary capacity and in the best interest of CPS, and which are to be exercised by CPS in its discretion:

- (a) Preservation of Principal. To direct the investment of the assets of the Master Trust in a manner designed to maximize and preserve the income and principal of the Master Trust for the purposes of the Master Trust, pursuant to subsections (b) and (c);
- (b) Investment of Funds. To direct the investment and reinvestment of all or part of the Funds, including any undistributed income; provided, however, that no

investment or reinvestment of the Funds may be made or directed unless such investment is an authorized investment under Chapter 2256 of the Texas Government Code, as it may be amended from time to time, and in compliance with the City Public Service Decommissioning Master Trust For the South Texas Project Investment Policy (Attachment E). Furthermore, the Funds may not be invested in any securities issued by CPS, the City of San Antonio, any of its agencies, or any utility which has ownership of nuclear generating capacity. In all cases, however, the total investments must be sufficiently liquid to enable the Master Trust to fulfill the purposes of the Master Trust and to satisfy obligations as such obligations become due;

(c) Management of Master Trust.

- (1) To direct the sale, exchange, conveyance, partition, or other disposition of all or any part of the Master Trust, at public or private sale, on such terms, in such manner and at such prices as CPS shall determine;
- (2) To direct the modification, renewal or extension of bonds, notes or other obligations or any installment of principal or any interest due thereon and the waiver of any defaults in the performance of the terms and conditions thereof;
- (3) To direct and authorize the Trustee to make, execute, acknowledge and deliver any and all documents of transfer and conveyance and any and all other instruments in connection with these powers, at such times, in such manner and on such terms and conditions as CPS may deem expedient to accomplish the purpose of the Master Trust as set forth in Section 1.3; and

- (4) To direct and authorize the Trustee to renew or extend the time of payment of any obligation, secured or unsecured, payable to or by this Master Trust, for as long a period or periods of time and on such terms as CPS shall determine; and to direct and authorize the Trustee to adjust, settle, compromise, and arbitrate claims or demands in favor of or against this Master Trust, on such terms as CPS may deem advisable.
- (d) Disposition of Investments. When required to make any distributions under Section 2.2 or Section 4.1(1), the Trustee shall sell investments at the best price reasonably obtainable, or present investments for prepayment, but only as directed by CPS in writing. The Trustee shall have no liability, except for its own negligence or willful misconduct, with respect to any sale or prepayment of an investment directed by CPS or an Investment Manager or made at the direction of CPS or an Investment Manager through a broker/dealer.
- (e) Self-Dealing. Notwithstanding anything contained in this Agreement to the contrary, CPS may not authorize any sale, exchange or other transaction which would constitute an act of "self dealing" within the meaning of Sections 113.052 and 113.053 of the Texas Trust Code, as it may be amended from time to time.

ARTICLE 6 - MISCELLANEOUS

- 6.1 Headings. The section headings set forth in this Agreement and the Table of Contents are inserted for convenience of reference only and shall be disregarded in the construction or interpretation of any of the provisions of this Agreement.

- 6.2 Particular Words. Any word contained in the text of this Agreement shall be read as the singular or plural and as the masculine, feminine, or neuter as may be applicable or permissible in the particular context. Unless otherwise specifically stated, the word "person" shall be taken to mean and include an individual, partnership, association, trust, company, or corporation.
- 6.3 Interested Parties. CPS shall have the right and power to enforce any and all provisions of this Master Trust Agreement in a court of competent jurisdiction. Nothing expressed or implied in this Agreement is intended or shall be construed to confer on, or to give to, any person or corporation, other than CPS and the Trustee, any right, remedy or claim under or by reason of this Agreement, or any covenant, condition or stipulation contained herein, except as provided for in Section 2.7. CPS shall be entitled to receive payments for Decommissioning Costs and Administrative Costs of the Master Trust which CPS may incur in carrying out the purpose set forth in Section 1.3 of this Agreement.
- 6.4 Severability of Provisions. If any provision of this Agreement or its application to any person or entity or in any circumstances shall be invalid, illegal or unenforceable, the application of such provision to persons and in circumstances other than those to which it is invalid, illegal or unenforceable and to the other provisions of this Agreement shall not be affected by such invalidity, illegality or unenforceability.
- 6.5 Delivery of Notices Under Agreement. Any notice, communication or billing for Trustee's fees required by this Agreement to be delivered to CPS or any notice, certification or communication to the Trustee shall be deemed to have been delivered when mailed, postage prepaid, by registered or certified mail, to the person to be notified as set forth below:

If to CPS:

City Public Service
145 Navarro
P. O. Box 1771
San Antonio, Texas 78296-1771
Attention: Secretary - Treasurer

If to the Trustee:

Frost National Bank
Retirement Services Division
P.O. Box 2950
San Antonio, Texas 78299-2950
Attention: City Public Service South Texas
Project Decommissioning
Master Trust

CPS or Trustee may change its address by delivering notice in writing to the other party.

- 6.6 Successors and Assigns. Subject to the provisions of Sections 2.7, 4.2, 4.3 and 4.4, this Agreement shall be binding on and inure to the benefit of CPS, the Trustee and their respective successors and assigns. This Agreement may not be assigned to any other party in whole or in part without the prior written consent of both parties to this Agreement. Except as provided in Section 4.1 (10), the duties of the Trustee may not be delegated by the Trustee without the prior written consent of CPS.
- 6.7 Governing Jurisdiction. This Agreement is a Texas trust and all questions pertaining to its validity, construction, and administration shall be determined in accordance with the laws of the State of Texas as if executed in and to be wholly performed within the State of Texas.
- 6.8 Accounting Year. The Master Trust shall operate on an accounting year which coincides with the calendar year, January 1 through December 31.
- 6.9 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures were on the same instrument.

6.10 Financial Accounting of Trustee. Any bank serving as the Trustee of the Master Trust shall provide quarterly financial statements on the financial condition of the bank and shall also submit evidence to the CPS Board of Trustees that the bank is satisfying the capital reserve requirements established by the Federal Reserve.

6.11 Effective Date. This Restated Decommissioning Master Trust Agreement is effective January 1, 2001.

IN WITNESS WHEREOF, CPS and the Trustee have set their hands and seals to this Agreement this ____ day of _____, 2000.

CITY PUBLIC SERVICE

Attest:

_____	By: _____
Patricia M. Major	V. Gary Schaub
Assistant Secretary-Treasurer	Secretary-Treasurer

Attest:

_____	By: _____
Name:	Name:
Title:	Title:

Enclosure 4

**Restated Decommissioning Master Trust Agreement
Investment Policy, February 1, 2004**

CITY PUBLIC SERVICE
RESTATED DECOMMISSIONING
MASTER TRUST AGREEMENT
FOR THE SOUTH TEXAS PROJECT

INVESTMENT POLICY

February 1, 2004



City Public Service

of
San Antonio, Texas

RESOLUTION ADOPTING THE CPS INVESTMENT POLICY AND THE CPS RESTATED DECOMMISSIONING MASTER TRUST FOR THE SOUTH TEXAS PROJECT INVESTMENT POLICY

The following resolution relating to the review and adoption of the CPS Investment Policy and the CPS Restated Decommissioning Master Trust for the South Texas Project Investment Policy was presented for consideration and approval by the Board of Trustees:

"WHEREAS, the Board of Trustees of the City Public Service of San Antonio, Texas, is responsible for the prudent handling and control of funds and investments of the City Public Service Board and the City Public Service Restated Decommissioning Master Trust for the South Texas Project; and

WHEREAS, the Board of Trustees shall review the Investment Policies of City Public Service and the City Public Service Restated Decommissioning Master Trust for the South Texas Project on an annual basis; and

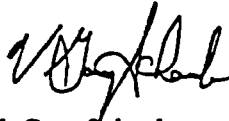
WHEREAS, any changes to the Investment Policies and investment strategies resulting from this review shall be recorded;

NOW THEREFORE BE IT RESOLVED that the Board hereby approves the following:

- (1) The Board of Trustees finds that the City Public Service Investment Policy as attached hereto is in compliance with the requirements of the Texas Public Funds Investment Act, New Series and Junior Lien Bond Ordinances and the Tax-Exempt Commercial Paper Ordinances, and is hereby adopted and incorporated into this resolution by reference; and
- (2) The Board of Trustees finds that the City Public Service Restated Decommissioning Master Trust for the South Texas Project Investment Policy as attached hereto is in compliance with the requirements of the Texas Public Funds Investment Act, New Series and Junior Lien Bond Ordinances, the Tax-Exempt Commercial Paper Ordinances and the CPS Restated Decommissioning Master Trust Agreement for the South Texas Project, and is hereby adopted and incorporated into this resolution by reference.
- (3) The Board of Trustees hereby delegates to the Secretary-Treasurer of the CPS Board the power to select particular investment pools for the investment of CPS funds under the CPS Investment Policy and the CPS Restated Decommissioning Master Trust Agreement for the South Texas Project Investment Policy and to direct the investment of funds under either Policy in the investment pools so selected. The Secretary-Treasurer shall report to the Board, on a quarterly basis, the investment pools so selected and the amount of funds invested in each investment pool. This resolution shall be deemed and construed in all aspects and for all purposes to (a) be the resolution of the CPS Board authorizing investment in each and every particular investment pool selected by the Secretary-Treasurer; and (b) to satisfy the requirements of section 2256.016(a) of the Texas Government Code that the CPS governing body authorize investment in each and every particular investment pool which is selected by the Secretary-Treasurer. The Secretary-Treasurer is hereby authorized to sign all documents or take all other actions to accomplish investment in the selected investment pools."

I, V. GARY SCHAUB, Secretary of the City Public Service Board of San Antonio, do hereby certify that the above foregoing is a true and correct copy of a resolution adopted by the unanimous vote of the Trustees of the Board present at the regular meeting of the Board held on Monday, December 29, 2003.

I hereby further certify that the resolution, as adopted by the Board of Trustees at this meeting, has not been modified, rescinded nor amended since its adoption.

A handwritten signature in black ink, appearing to read 'V. Gary Schaub', is positioned above the printed name.

V. Gary Schaub
City Public Service Board
of San Antonio, Texas

**CITY PUBLIC SERVICE
RESTATED DECOMMISSIONING MASTER TRUST AGREEMENT
FOR THE SOUTH TEXAS PROJECT
INVESTMENT POLICY**

Table of Contents

	<u>Page</u>
I. Purpose of Investment Policy	1
II. Funds Covered by the Investment Policy	1
III. General Investment Policy Statement	1
IV. Investment Objectives	2
V. Investment Responsibility and Authority	3
VI. Investment Committees	4
VII. Investment Strategy	4
VIII. Authorized Investments	5
IX. Prohibited Transactions	8
X. Investment Procedures	8
XI. Security Dealer Requirements	9
XII. Investment Accounting	9
XIII. Investment Reporting	10
XIV. Investment Training	10
XV. Investment Control Structure	10
XVI. Review and Amendment of Investment Policy	11

APPENDICES

Appendix A – Articles 3 and 5; Trust Agreement

Appendix B – Public Funds Investment Act

Appendix C – Public Funds Collateral Act

Appendix D – CPS Collateral Policy

Appendix E – Authorized Investments

Appendix F – Financial Authorizations and Approvals Policy

Appendix G – Code of Federal Regulations, Title 5, Section 6801.102

Appendix H – Property Code, Section 113.053

Appendix I – Security Dealer Qualifications

Appendix J – Dealer Certifications

**CITY PUBLIC SERVICE
RESTATED DECOMMISSIONING MASTER TRUST AGREEMENT
FOR THE SOUTH TEXAS PROJECT
INVESTMENT POLICY**

I. Purpose of Investment Policy

The purpose of the City Public Service ("CPS") Restated Decommissioning Master Trust Agreement for the South Texas Project ("Trust") Investment Policy ("Investment Policy") is to provide written guidelines, approved by the CPS Board of Trustees, for the investment and management of Trust funds and related activities, as required by the Public Funds Investment Act of Texas, as amended.

The Investment Policy is structured to comply with the Article 5 of the Trust Agreement (Appendix A); the Public Funds Investment Act of Texas, Chapter 2256 of the Texas Government Code, as amended, (Appendix B) ("PFIA"); the Public Funds Collateral Act, Chapter 2257 of the Texas Government Code, as amended, (Appendix C); other applicable State statutes; and CPS Board of Trustee Resolutions relating to investments (Appendices D and F).

II. Funds Covered by the Investment Policy

This Investment Policy applies to the following funds of the City Public Service Restated Decommissioning Master Trust Agreement for the South Texas Project:

- A. South Texas Project Unit No. 1 Fund
- B. South Texas Project Unit No. 2 Fund
- C. South Texas Project Fuel Storage Fund

Trust funds are to be maintained in separate portfolios as required by the Trust Agreement.

III. General Investment Policy Statement

All funds are to be invested in authorized securities to earn investment income at market rates, placing the primary emphasis on safety and, at the time funds are needed for decommissioning costs, on liquidity. All investments are to be made consistent with Trust Agreement, City Ordinance, legal and tax requirements, and other applicable agreements.

The Investment Policy is to be followed by all CPS personnel and third parties involved with CPS investment activities for the Trust. As set forth in the PFIA, investment transactions "shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived."

The “prudent person” standard shall be applied in the context of managing an overall portfolio. Under this standard, Investment Officers and other designated employees involved in investment activities acting in accordance with written procedures and the Investment Policy, and exercising due diligence would not be accountable for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. Investment Objectives

The investment objectives of the Trust are long-term in nature and represent desired, defined results. The objectives are based on decommissioning funding requirements and assumptions regarding current and future economic conditions and are as follows:

A. Preservation and Safety of Principal - preservation and safety of principal is the primary objective of this Investment Policy. Investments will be made and managed so as to minimize loss of principal due to credit failures or other risks and collateral, where appropriate, will be maintained at all times.

B. Liquidity - once the decommissioning process begins, adequate liquidity should be maintained to meet projected cash needs. Adequate liquidity requires that investments mature as the funds are required or can be sold on the secondary market without substantial, if any, loss of income or principal.

C. Yield of Investment - investments should attempt to realize a market rate of return per investment dollar while minimizing risk, considering the primary objectives of safety and liquidity.

D. Competitive Pricing - CPS personnel should take steps to ensure the fund investments are priced competitively at time of purchase or sale and shall maintain equitable relations with investment dealers.

E. Diversification - attempts shall be made to diversify securities to meet the other investment objectives, avoiding unreasonable market or other risks, and inappropriate concentrations of investments.

F. Growth - a goal of the investments should be long-term growth, realized with prudent levels of risk and volatility.

G. Control – CPS shall provide proper control of all investments.

Reasonable and prudent efforts shall be made to ensure the accumulation of funds will be sufficient to pay CPS’ share of the costs of decommissioning. The rate of return for each fund as a whole over time should, as a goal, target the investment rate assumed when calculating decommissioning funding requirements. This assumed rate will be periodically evaluated and changed as necessary based on updated decommissioning cost studies and financial forecasts.

V. Investment Responsibility and Authority

A. General Authorizations

The responsibility for Trust administration rests with the authorized representatives as outlined in the amended Trust Agreement, Article 3 (Appendix A). With appropriate restrictions, the CPS Board of Trustees resolution approving the CPS Financial Authorizations and Approvals Policy for Banking, Investments and Hedging (the "Financial Authorizations and Approvals Policy") authorizes (as specified in Appendix F) any two of the following Officers of City Public Service (including persons appointed to fill these position in an interim capacity) to execute any and all instruments necessary or required by a bank or investment firm to purchase or sell securities in the name of CPS or the Trust:

1. General Manager and CEO
2. Secretary-Treasurer
3. Assistant Secretary-Treasurer

Any two of the above named CPS Officers ("Officers") may designate one or more Authorized Employees ("Authorized Employees") to approve investment transactions, or purchase and sell securities in the name of City Public Service or the Trust. Securities transactions executed by an Authorized Employee must be pre-approved by two of the Officers, or by any one Officer and a different Authorized Employee.

B. Investment Officers

The CPS Board of Trustees has approved the CPS Financial Authorizations and Approvals Policy (Appendix F) which designates the officers and other staff who are considered Investment Officers for CPS and the Trust. As required, that policy may be amended and/or updated periodically. The Secretary-Treasurer or the Assistant Secretary-Treasurer as directed by that policy will notify banks, investment broker/dealers, and others conducting business with CPS of any changes which might affect the CPS Restated Decommissioning Master Trust Investment Policy. All individuals who purchase or sell securities on behalf the Trust must comply with this Investment Policy.

C. Daily Investment Authorization

The Secretary-Treasurer and the Assistant Secretary-Treasurer and designated Authorized Employees are responsible for the routine investment activities, including, but not limited to:

1. Maintaining written administrative procedures for Trust investing functions and programs.
2. Preparing cash forecasts for and maintaining liquidity of the Trust.
3. Investing Trust funds under this Investment Policy and the guidelines established by the Investment Strategy Committee.
4. Monitoring the investment performance of each fund versus performance of similar funds and versus the estimates and targets established for the Trust.

5. Establishing, reviewing and modifying types of investments and asset mix permitted within investment guidelines.
6. Monitoring investment activity for full compliance with the Investment Policy.
7. Proposing Investment Policy changes to the Investment Strategy Committee for presentation and approval by the CPS Board of Trustees.

VI. Investment Committees

A. Investment Strategy Committee – An Investment Strategy Committee is hereby established by the CPS Board of Trustees, with the core members defined in the CPS Financial Authorizations and Approvals Policy (Appendix F). This Committee will meet as necessary, but at least annually to: (a) review investment strategies and guidelines, this Investment Policy, and written administrative procedures; (b) approve Investment Officer training; (c) as required, appoint members to the Investment Operations Committee; and (d) annually review, revise and adopt a list of qualified banks and brokers authorized to conduct investment transactions with the Trust.

The CPS Board of Trustees designates the Secretary-Treasurer to serve as the Chairperson of this Committee. The CPS Board further authorizes the Secretary-Treasurer and the Assistant Secretary-Treasurer to appoint additional individuals to this Committee as they deem appropriate to fulfill the duties and responsibilities. A quorum of Committee Members must be present at each of the meetings. For the purpose of this policy, a quorum (of either the Investment Strategy Committee or the Investment Operations Committee) is defined as a majority of the committee members. This Committee has the authority to employ investment managers or other related consultants to assist with investment activities if deemed to be in the best interest of CPS and the Trust. This must be coordinated with the terms of the Restated Decommissioning Master Trust Agreement.

B. Investment Operations Committee – An Investment Operations Committee appointed by the Investment Strategy Committee is established by this Investment Policy. This Committee will meet as necessary, but at least quarterly to: (a) review compliance with this Investment Policy; (b) review prior period fund investments and transactions; (c) review the Investment Policy; (d) discuss financial transactions for the upcoming quarter and remainder of the fiscal year; and (e) review the performance of banks and broker/dealers. A quorum of Committee Members must be present at each meeting. Projected cash receipts and disbursements, investment forecasts, general investment strategies, and investment goals will also be reviewed.

VII. Investment Strategy

Investment strategies are the plans and methods to be used to achieve the investment objectives. The general strategy, consistent with the stated investment objectives, is to earn market rates of return to the extent possible, to maintain appropriate diversification and liquidity of investments, and to select maturities that ultimately match projected cash requirements.

It is general CPS practice to purchase securities rated AAA (or a rating equivalent to AAA). However, CPS reserves the right to consider and purchase securities with a lesser rating if they meet the

specifications in this Policy, are approved according to the requirements in Appendix F, and the nature and rating of the securities are fully disclosed to CPS by the broker/dealer prior to purchase.

In many instances securities will be purchased and held to maturity, or sold immediately prior to the date required. Securities may be sold before maturity if market conditions provide a favorable benefit. Sales of securities that are other than routine will be reviewed and recommendations regarding possible sale transactions will be approved in accordance with the CPS Financial Authorizations and Approvals Policy in Appendix F before any trades occur. The term "maturity" or "years to maturity" as used in this policy is defined as the period from the date of purchase of a security to the final maturity of the security.

Maturities may range up to the date that CPS' final cost of decommissioning is scheduled for payment. Funds should be available at the appropriate time to satisfy the obligations of CPS for which the Trust was established.

Both long and short-term investments of Trust funds are permissible. Short-term investments may be made in anticipation of higher future returns if it is anticipated that long-term interest will increase. Influencing factors for determining selected maturities would include current and projected economic and interest rate environments (including the shape of the yield curve and interest rate projections), inflation projections, diversification issues and projected Trust balances. As such, there is no predetermined target weighted average maturity of the portfolio. Rather the weighted average yield, or rate of return, will be targeted as previously described in Section IV.

There is no requirement for the Trust to maintain any cash reserves for payment of costs, other than administrative costs as defined in the Trust Agreement, until such time that funds are actually required for CPS' share of the costs of decommissioning the South Texas Nuclear Project.

VIII. Authorized Investments

As authorized by State Law and in Article 5 of the Trust Agreement (Appendix A), investments are made in accordance with the PFIA. The investments described below are those sanctioned by the PFIA and authorized by this Investment Policy for the investment of Trust funds. These investments are also outlined in Appendix E. The Trust fund governed by this policy is eligible to be invested in:

- A.** Obligations of the United States or its agencies and instrumentalities, including letters of credit.
- B.** Direct obligations of the State of Texas or its agencies and instrumentalities.
- C.** Collateralized mortgage obligations, having a stated final maturity of 10 years or less, directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.
- D.** Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities.
- E.** Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

F. Certificates of Deposit issued by a state, national bank, or savings bank domiciled in the State of Texas which are fully secured and/or federally insured.

G. Securities Lending programs that:

1. are 100-102 percent collateralized, including accrued income (refer to section X,E. of this Policy);
2. have loan terms that allow for termination at any time;
3. have loans that are secured by one or more of the following:
 - a. pledged securities described by Section 2256.009 of the PFIA;
 - b. pledged irrevocable letters of credit issued by a bank that is organized and existing under the laws of the United States or any other state, and is continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent; or
 - c. cash invested in accordance with Sections 2256.009, 2256.013, 2256.014, or 2256.016 of the PFIA.
4. have loan terms requiring securities held as collateral be:
 - a. pledged to CPS;
 - b. held in CPS' name; and
 - c. deposited at the time the investment is made with CPS or with a third party selected by or approved by CPS;
5. have loans placed through:
 - a. a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f) (Appendix G) as that regulation existed on September 1, 2003; or
 - b. a financial institution doing business in this state; and
6. have an executed agreement to lend securities with a term of one year or less.

H. Fully collateralized repurchase agreements that:

1. have defined termination dates;
2. are secured by obligations of the U.S. or its agencies and instrumentalities;
3. require the securities being purchased to be pledged to the Trust, held under its name, and deposited at the time the investment is made with the entity or with a third party selected and approved by CPS; and
4. are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this State.

The term "repurchase agreement" includes a direct security repurchase agreement and a reverse security repurchase agreement. An executed copy of a Master Repurchase Agreement must be signed by the issuer and on file before the Trust will enter into any repurchase agreement. The term of any reverse repurchase agreement may not exceed 90 days after the date of agreement delivery. Money received by the Trust under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature no later than the expiration date stated in the reverse security repurchase agreement.

I. Bankers' acceptances that:

1. have a stated maturity of 270 days or fewer from the date of issuance;
2. will be liquidated in full at maturity;
3. are eligible for collateral for borrowing from a Federal Reserve Bank; and
4. are accepted by a bank organized and existing under the laws of the U.S. or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the

largest subsidiary, are rated not less than A-1, P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

J. Commercial paper that:

1. has a stated maturity of 270 days or fewer from the date of its issuance; and
2. is rated not less than A-1, P-1, or equivalent by at least two nationally recognized credit rating agencies or one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the U.S. or any state.

K. A no-load money market mutual fund that:

1. is registered with and regulated by the Securities and Exchange Commission;
2. provides CPS with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940;
3. has a dollar-weighted average stated maturity of 90 days or fewer; and
4. includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

The Trust may not invest in any funds under its control in an amount that exceeds 10 percent of the total assets of any individual money market mutual fund described in this paragraph 10.

L. A no-load mutual fund that:

1. is registered with the Securities and Exchange Commission;
2. has an average weighted maturity of less than two years;
3. is invested exclusively in obligations approved by this policy;
4. is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
5. provides the investment officers of CPS with the appropriate disclosure information.

No more than 15 percent of the Trust's monthly average fund balance may be invested in mutual funds. CPS may not invest any funds under its control in an amount that exceeds 10 percent of the total assets of any individual mutual fund described in this paragraph 11.

M. Investment Pools that:

1. furnish an offering circular or similar disclosure instrument that contains, at a minimum, the information required by section 2256.016(b) of the PFIA;
2. furnish investment transaction confirmations to CPS, and monthly report complying with section 2256.016 (c) of the PFIA;
3. for investment pools created to function as money market mutual funds, mark their portfolios to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value;
4. have advisory boards composed of pool participants and other persons who do not have a business relationship with the pool and are qualified to advise the pool as required by the PFIA;
5. are continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

IX. Prohibited Transactions

The Trust Agreement and this Investment Policy prohibit investments in securities issued by CPS, the City of San Antonio or any of its agencies, or any utility that has ownership of a nuclear generating facility. CPS may not authorize or carry out: (a) any sale, exchange or other transaction which would constitute an act of "self-dealing" within the meaning of Section 113.053 of the Texas Property Code (Appendix H), as it may be amended from time to time; or (b) any investment which would violate the PFLA, or this Investment Policy. An investment management firm, if one is chosen, may not invest decommissioning funds with itself, its officers, or its directors.

Notwithstanding anything to the contrary in this Investment Policy, CPS shall not invest in any of the following:

- A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage backed security collateral and pays no principal;
- B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage backed security collateral and bears no interest;
- C. Collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and
- D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

X. Investment Procedures

A. **Purchase/Sale of Securities** - Investment activities, and related approvals, are to be performed according to the written administrative procedures for the operation of the investment program maintained by the Finance Section. The procedures are to be in compliance with this Investment Policy and the CPS Financial Authorizations and Approvals Policy shown in Appendix F. The administrative procedures are to be reviewed and approved by an Officer.

B. **Competitive Bidding Requirement** – All securities traded by CPS personnel, including certificates of deposit, will be purchased or sold after at least three offers/bids are received to document that a fair market price/value has been paid or received for the transaction, unless an emergency situation or a compelling business necessity precludes obtaining such competitive bids or offers. Offers/bids may be taken orally, in writing or electronically.

C. **Asset Mix** - Appendix E specifies the maximum allowable percentage for each type of authorized investment. These maximums apply to each fund on an individual, not a combined, basis. There may be times when the investment environment may be either adverse or attractive for various types of authorized investments. In such cases, it is expected that the investment mix will be altered to either reduce market risk or optimize opportunities to capitalize on current or expected market movement subject to the maximums set forth in Appendix E. Such interim strategic decisions will be reviewed and approved by an Officer.

D. **Market Price Monitoring** – The market price of all portfolio securities will be determined and reviewed at least quarterly. The market price for individual securities will be obtained from independent, reputable sources.

E. Collateralization – Deposits of CPS funds in a bank or other financial institution, such as certificates of deposits, are collateralized in accordance with the CPS Collateral Policy (Appendix D). For all investments which are collateralized, the collateral must be a type of security specifically authorized to be held as a direct investment by the Trust, except as otherwise allowed by law and except that collateral for repurchase agreements is limited to obligations of the U.S. government or its agencies. Collateral must be held by CPS or by an independent third party with which CPS has a current custodial agreement and must be pledged to the Trust. All collateral will be periodically monitored. In order to anticipate market changes, the collateralization level must be 102% of the market value of principal and interest, unless CPS has specifically agreed to a lower level of between 100-102% of such value. Substitution of collateral should be in accordance with the CPS Financial Authorizations and Approvals Policy in Appendix F. All security transactions, including collateral for repurchase agreements, entered into by the Trust shall be handled on a delivery-versus-payment basis, except for investment pool funds and mutual funds.

XI. Security Dealer Requirements

A. Approval - All securities dealers, including banks, utilized by CPS for the purpose of Trust investments must be approved by two Officers. Securities dealers must meet the qualifications specified in Appendix I. Procedures for evaluating security dealers will be established by the Investment Operations Committee. All securities dealers and any other persons trading investments with CPS or the Trust must execute the Dealer Certifications statement as shown in Appendix J or a substantially equivalent document.

B. Dealer Performance Review – Approved securities dealers will be reviewed periodically to assess performance and compliance with the Trust Investment Policy. A review of the reports obtained from applicable regulatory agencies for each individually licensed dealer will also be performed periodically. An Officer may revoke authorization as an approved CPS dealer if a securities dealer does not maintain certification requirements or meet performance standards.

XII. Investment Accounting

The Controller Division, in conjunction with the Trustee of the Trust, is responsible for the recording and/or reviewing and reporting of the Trust investment transactions, which include:

A. Maintenance of adequate detail and summary records regarding all investment transactions and fund portfolios.

B. Preparation and/or approval of accounting entries in accordance with Generally Accepted Accounting Principles (GAAP) to record investment of funds, maturity and sale of securities, collection of related income, accrual of income, and amortization of premiums and/or discounts. This includes the preparation of required financial and accounting disclosures in published financial statements.

C. The accounting methods to be used will include, but are not limited to (1) separate accounting for each fund, (2) recording investments at book value, with appropriate reporting and recording of market values, (3) recording gains and losses from investment sales as credits or charges to investment income, and (4) accretion over the life of the securities for discounts taken, or

amortization for premiums paid from the purchase of securities credited or charged to investment income.

XIII. Investment Reporting

The Controller Division, in conjunction with the Trustee of the Trust, are responsible for preparation and submission of reports of Trust investments and investment transactions. These reports include:

A. Quarterly Report - a report will be prepared quarterly and submitted to the Board of Trustees. The report will be signed by all of the Investment Officers and state compliance of the investment portfolio as it relates to the Investment Policy and the PFIA. The quarterly report shall include:

1. Investment position on the date of the report.
2. Book and market value of each separately invested asset at the beginning and end of the reporting period by asset and fund type.
3. Maturity date of each asset.
4. Statement of compliance with the Investment Policy and the PFIA.
5. Any other information required by the PFIA.

Quarterly reports will be reviewed at least annually by an independent auditor and the results of the review will be presented to the Board of Trustees by the auditor.

B. Other Reports - reports that may be required by the amended Trust Agreement, City Ordinances, State or Federal statutes, or administrative procedures. These reports shall include an annual review by an independent auditor of the approved investment reports and compliance with management controls. The results of this review will be presented to the CPS Board of Trustees.

XIV. Investment Training

The Investment Officers shall attend at least one training session and receive at least 10 hours of instruction related to the investment of public funds within 12 months after assuming such duties. In addition, these Investment Officers shall attend an investment training session not less than once in a two year period and receive not less than 10 hours of instruction related to investment responsibilities delineated in this policy and the PFIA. Such training shall be from an independent source approved by the Investment Strategy Committee.

XV. Investment Control Structure

A. General - Each person responsible for the investment and management of Trust funds is bound by the amended Trust Agreement, City Ordinances, the Investment Policy, Board of Trustee resolutions, and applicable State and Federal statutes and regulatory provisions. Proper controls will be maintained to ensure that investments are made within the guidelines of this Investment Policy, that the investments of each fund are properly protected, and that adequate management reporting is in place. Controls will address such issues as written administrative procedures,

collusion, separation of functions, security safekeeping, delegation of authority and written confirmations and approvals.

B. Disclosure of Personal/Business Relationships - Personal business relationships or familial relationships of CPS personnel involved or responsible for investing activities with any firm with which CPS purchases or sells securities, or that may be engaged by the Investment Strategy Committee, will be disclosed in writing to the CPS Board of Trustees and to the Texas Ethics Commission.

C. Training – All CPS staff responsible for Trust investments will be properly trained on investments in accordance with the PFIA.

D. Delivery of Securities - All securities will be purchased and sold on a delivery-versus-payment basis, whereby funds will not be released until the security is delivered to the safekeeping account, except for investment pool funds and mutual funds.

E. Safekeeping of Securities - All securities are to be held in safekeeping in the name of the Decommissioning Trust at either a Federal Reserve Branch, The Depository Trust Company ("DTC"), in book entry form, or at an independent state or national bank designated by CPS.

F. Compliance Audit - Internal controls and compliance with this Investment Policy will be reviewed annually by an independent auditor. The audit report will be provided to the CPS Board of Trustees as required under the PFIA.

XVI. Review and Amendment of Investment Policy

In accordance with the PFIA, the Board of Trustees shall review this Investment Policy and associated investment strategies at least annually. Pursuant to this review, the Board shall adopt a resolution stating that it has reviewed the policy and record any changes made to the policy or investment strategies as a result of this review.

APPENDIX A

**CITY PUBLIC SERVICE
RESTATED DECOMMISSIONING MASTER TRUST
AGREEMENT FOR THE SOUTH TEXAS PROJECT**

ARTICLE 3 - TRUST MANAGEMENT AND ADMINISTRATION

3.1 Management Duties. CPS, by and through the Authorized CPS Representatives as specified in Paragraph 1.1(3), shall direct and manage the investments of the Master Trust and perform all duties attendant thereto, including, but not limited to, (a) the direction of the investment of assets of the Master Trust, (b) the preservation and protection of any interests of the Master Trust and its assets, (c) the appointment of Investment Managers (if one is appointed), and (d) the execution of whatever contracts, agreements, or other documents it deems necessary to manage the Funds of the Master Trust. CPS may retain the services of such professional advisors, legal counsel, and administrative support as it deems necessary to carry out its responsibilities. The reasonable fees and/or compensation for any such assistance CPS may desire to retain shall be regarded as Administrative Costs payable in accordance with Section 2.2 as approved by CPS.

3.2 Evaluation of Trustee and Investment Manager(s). CPS shall evaluate the performance of the Trustee and any Investment Manager(s) annually and submit a written report to the CPS Board of Trustees. The report shall include, at a minimum:

- (1) A finding, with supporting analysis, as to whether the current Trustee and Investment Manager(s) should be retained or replaced;
- (2) A justification for the use of one or more Investment Manager(s) (if applicable); and
- (3) An itemized accounting of the Master Trust administration expenses and their basis, and all other expenditures from the Master Trust.

At least once every five (5) years, CPS shall evaluate potential substitute Trustees and submit a report to the CPS Board of Trustees. This report may be combined with the annual report described above and shall include, at a minimum:

- (1) A description of CPS' attempts to solicit proposals from other firms which can perform the trust duties; and
- (2) An evaluation of at least three (3) organizations which could potentially replace the current Trustee.

Notwithstanding the paragraph above, CPS shall not be required to solicit proposals to replace a Trustee(s) who, in the judgment of CPS, is performing adequately and has served as Trustee for less than five (5) years.

3.3 Limitations on Trustee Actions. The Trustee shall not take any action or participate in any transaction which would violate the terms and conditions of any instructions provided

by CPS pursuant to Section 3.4 so long as the terms and conditions are consistent with this Agreement.

- 3.4 Instructions to Trustee. All orders, directions, requests, instructions and Certifications by CPS to the Trustee shall be in writing, signed by two Authorized CPS Representatives (one of which must be the General Manager & CEO or the Secretary-Treasurer). The Trustee shall have the right to assume, in the absence of written notice to the contrary, that no event constituting a change or a termination of the authority of any person to act on behalf of CPS has occurred. The Trustee shall have no duty to act in the absence of such orders, directions, requests, instructions, and Certifications from CPS.

ARTICLE 5 - INVESTMENTS AND INVESTMENT POWERS

- 5.1 Appointment/Removal/Resignation of Investment Manager(s). CPS may direct the investment of all or a specified portion of the Master Trust. Additionally, CPS may appoint one or more Investment Managers by separate agreement to direct the investment of all or a specified portion of the Master Trust. The Trustee or its affiliates may not serve in the capacity of Investment Manager. The appointment of the Investment Manager(s) shall be made in accordance with procedures specified by CPS. CPS shall provide written notice of any appointment of an Investment Manager(s) to the Trustee. The Investment Manager(s) shall certify in writing to CPS and the Trustee that it is qualified to act in the capacity provided under an Investment Management Agreement, shall accept its appointment as Investment Manager in writing, shall certify the identity of the person or persons authorized to give instruction or directions to the Trustee on its behalf, including specimen signatures, and shall undertake to perform the duties imposed on it under an Investment Management Agreement executed by it and CPS. The Trustee may continue to rely upon all such certifications unless otherwise notified in writing by CPS or the Investment Manager(s), as the case may be.

CPS shall also have the right to remove any appointed Investment Manager. In the event that an Investment Manager should resign or be removed, CPS shall manage the portion of the Trust previously managed by said Investment Manager pursuant to the provisions of this Trust unless the Trustee is notified of the appointment of another Investment Manager with respect to such portion.

- 5.2 Investment Direction by CPS and/or Investment Manager(s). CPS and/or any Investment Manager(s) appointed by CPS to manage all or a specified portion of the Master Trust shall have authority to manage and direct the acquisition and disposition of the assets of all or a specified portion of the Master Trust over which it has designated investment authority. Only investments specified in Paragraph 5.4(b) of this Master Trust are authorized trust investments. CPS and/or the Investment Manager(s) shall have the power and authority, exercisable in its sole discretion at any time, and from time to time, to issue and place orders for the purchase or sale of Fund securities directly with brokers or dealers. The Trustee, upon proper notification from CPS or an Investment Manager, shall have the authority to, and shall execute, settle, and deliver in accordance with the appropriate trading authorizations. Written notification of the issuance of each authorization shall be given promptly to the Trustee by CPS or the Investment Manager(s), and CPS or the Investment Manager(s) shall cause the execution of such order to be confirmed in writing to the Trustee by the broker or dealer.

The authority of any Investment Manager(s) and the terms and conditions of the appointment and retention of any Investment Manager(s) shall be the sole responsibility of CPS. Any duty of supervision or review of the acts, omissions or overall performance of any Investment Manager(s), other than those necessary and proper to effectuate and

carry out the purpose of the Master Trust and powers granted under this Agreement or any Investment Management Agreement, shall be the exclusive responsibility of CPS. The Trustee shall have no duty to make suggestions to any Investment Manager(s) or to CPS with respect to the exercise of or the failure to exercise any power by the Investment Manager(s), except that the Trustee shall have the duty to review any securities or other assets purchased by CPS or any Investment Manager(s) to ensure compliance and conformity with investment restrictions as provided in Paragraph 5.4(b) of this Agreement and/or any of the relevant investment provisions of any Investment Management Agreement between CPS and any Investment Manager.

5.3 Trustee's Investment Powers. The Trustee acknowledges and recognizes the authority of CPS and/or the Investment Manager(s) to manage and to direct the investment and reinvestment of the assets of the Master Trust as provided in Sections 3.1 and 5.2 of this Agreement and/or pursuant to an Investment Management Agreement executed between CPS and an Investment Manager(s). The Trustee agrees to cooperate with CPS and/or the Investment Manager(s) as necessary to facilitate the exercise of these powers. CPS directs the Trustee, without further written authorization by CPS, to invest cash balances on a daily basis in interest-bearing, fully collateralized accounts, or other investments which are authorized investments under Chapter 2256 of the Texas Government Code, as it may be amended from time to time, including a fiduciary money market fund, until directed to do otherwise by CPS and/or an Investment Manager.

5.4 CPS' Investment Management Powers. CPS, unless it has appointed an Investment Manager, shall have the following investment management powers, all of which are to be executed in a fiduciary capacity and in the best interest of CPS, and which are to be exercised by CPS in its discretion:

- (a) Preservation of Principal. To direct the investment of the assets of the Master Trust in a manner designed to maximize and preserve the income and principal of the Master Trust for the purposes of the Master Trust, pursuant to subsections (b) and (c);
- (b) Investment of Funds. To direct the investment and reinvestment of all or part of the Funds, including any undistributed income; provided, however, that no investment or reinvestment of the Funds may be made or directed unless such investment is an authorized investment under Chapter 2256 of the Texas Government Code, as it may be amended from time to time, and in compliance with the City Public Service Decommissioning Master Trust For the South Texas Project Investment Policy (Attachment E). Furthermore, the Funds may not be invested in any securities issued by CPS, the City of San Antonio, any of its agencies, or any utility which has ownership of nuclear generating capacity. In all cases, however, the total investments must be

sufficiently liquid to enable the Master Trust to fulfill the purposes of the Master Trust and to satisfy obligations as such obligations become due;

(c) Management of Master Trust.

- (1) To direct the sale, exchange, conveyance, partition, or other disposition of all or any part of the Master Trust, at public or private sale, on such terms, in such manner and at such prices as CPS shall determine;
- (2) To direct the modification, renewal or extension of bonds, notes or other obligations or any installment of principal or any interest due thereon and the waiver of any defaults in the performance of the terms and conditions thereof;
- (3) To direct and authorize the Trustee to make, execute, acknowledge and deliver any and all documents of transfer and conveyance and any and all other instruments in connection with these powers, at such times, in such manner and on such terms and conditions as CPS may deem expedient to accomplish the purpose of the Master Trust as set forth in Section 1.3; and
- (4) To direct and authorize the Trustee to renew or extend the time of payment of any obligation, secured or unsecured, payable to or by this Master Trust, for as long a period or periods of time and on such terms as CPS shall determine; and to direct and authorize the Trustee to adjust, settle, compromise, and arbitrate claims or demands in favor of or against this Master Trust, on such terms as CPS may deem advisable.

(d) Disposition of Investments. When required to make any distributions under Section 2.2 or Section 4.1(1), the Trustee shall sell investments at the best price reasonably obtainable, or present investments for prepayment, but only as directed by CPS in writing. The Trustee shall have no liability, except for its own negligence or willful misconduct, with respect to any sale or prepayment of an investment directed by CPS or an Investment Manager or made at the direction of CPS or an Investment Manager through a broker/dealer.

(e) Self-Dealing. Notwithstanding anything contained in this Agreement to the contrary, CPS may not authorize any sale, exchange or other transaction which would constitute an act of "self dealing" within the meaning of Sections 113.052 and 113.053 of the Texas Trust Code, as it may be amended from time to time.

APPENDIX B

Government Code

CHAPTER 2256. PUBLIC FUNDS INVESTMENT

SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES

Sec. 2256.001. Short Title.

This chapter may be cited as the Public Funds Investment Act.

Sec. 2256.002. Definitions.

In this chapter:

(1) "Bond proceeds" means the proceeds from the sale of bonds, notes, and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.

(2) "Book value" means the original acquisition cost of an investment plus or minus the accrued amortization or accretion.

(3) "Funds" means public funds in the custody of a state agency or local government that:

(A) are not required by law to be deposited in the state treasury; and

(B) the investing entity has authority to invest.

(4) "Institution of higher education" has the meaning assigned by Section 61.003, Education Code.

(5) "Investing entity" and "entity" mean an entity subject to this chapter and described by Section 2256.003.

(6) "Investment pool" means an entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are:

(A) preservation and safety of principal;

(B) liquidity; and

(C) yield.

(7) "Local government" means a municipality, a county, a school district, a district or authority created under Section 52(b)(1) or (2), Article III, or Section 59, Article XVI, Texas Constitution, a fresh water supply district, a hospital district, and any political subdivision, authority, public corporation, body politic, or instrumentality of the State of Texas, and any nonprofit corporation acting on behalf of any of those entities.

(8) "Market value" means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

(9) "Pooled fund group" means an internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

(10) "Qualified representative" means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

(A) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;

(B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;

(C) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or

(D) for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

(11) "School district" means a public school district.

(12) "Separately invested asset" means an account or fund of a state agency or local government that is not invested in a pooled fund group.

(13) "State agency" means an office, department, commission, board, or other agency that is part of any branch of state government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities.

Sec. 2256.003. Authority to Invest Funds; Entities Subject to this Chapter.

(a) Each governing body of the following entities may purchase, sell, and invest its funds and funds under its control in investments authorized under this subchapter in compliance with investment policies approved by the governing body and according to the standard of care prescribed by Section 2256.006:

(1) a local government;

(2) a state agency;

(3) a nonprofit corporation acting on behalf of a local government or a state agency; or

(4) an investment pool acting on behalf of two or more local governments, state agencies, or a combination of those entities.

(b) In the exercise of its powers under Subsection (a), the governing body of an investing entity may contract with an investment management firm

registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made under authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the governing body of the investing entity by order, ordinance, or resolution.

(c) This chapter does not prohibit an investing entity or investment officer from using the entity's employees or the services of a contractor of the entity to aid the investment officer in the execution of the officer's duties under this chapter.

Sec. 2256.004. Applicability.

(a) This subchapter does not apply to:

(1) a public retirement system as defined by Section 802.001;

(2) state funds invested as authorized by Section 404.024;

(3) an institution of higher education having total endowments of at least \$95 million in book value on May 1, 1995;

(4) funds invested by the Veterans' Land Board as authorized by Chapter 161, 162, or 164, Natural Resources Code;

(5) registry funds deposited with the county or district clerk under Chapter 117, Local Government Code; or

(6) a deferred compensation plan that qualifies under either Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Section 1 et seq.), as amended.

(b) This subchapter does not apply to an investment donated to an investing entity for a particular purpose or under terms or use specified by the donor.

Sec. 2256.005. Investment Policies; Investment Strategies; Investment Officer.

(a) The governing body of an investing entity shall adopt by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control.

(b) The investment policies must:

(1) be written;

(2) primarily emphasize safety of principal and liquidity;

(3) address investment diversification, yield, and maturity and the quality and capability of investment management; and

(4) include:

(A) a list of the types of authorized investments in which the investing entity's funds may be invested;

(B) the maximum allowable stated maturity of any individual investment owned by the entity;

(C) for pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio;

(D) methods to monitor the market price of investments acquired with public funds; and

(E) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis.

(c) The investment policies may provide that bids for certificates of deposit be solicited:

(1) orally;

(2) in writing;

(3) electronically; or

(4) in any combination of those methods.

(d) As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance:

(1) understanding of the suitability of the investment to the financial requirements of the entity;

(2) preservation and safety of principal;

(3) liquidity;

(4) marketability of the investment if the need arises to liquidate the investment before maturity;

(5) diversification of the investment portfolio; and

(6) yield.

(e) The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall

record any changes made to either the investment policy or investment strategies.

(f) Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity. If the governing body of an investing entity has contracted with another investing entity to invest its funds, the investment officer of the other investing entity is considered to be the investment officer of the first investing entity for the purposes of this chapter. Authority granted to a person to invest an entity's funds is effective until rescinded by the investing entity, until the expiration of the officer's term or the termination of the person's employment by the investing entity, or if an investment management firm, until the expiration of the contract with the investing entity. In the administration of the duties of an investment officer, the person designated as investment officer shall exercise the judgment and care, under prevailing circumstances, that a prudent person would exercise in the management of the person's own affairs, but the governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the investing entity.

(g) Subsection (f) does not apply to a state agency, local government, or investment pool for which an officer of the entity is assigned by law the function of investing its funds.

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be designated as an investment officer under Subsection (f) for any investing entity other than for that commission. An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be an investment officer for the commission under Subsection (f) if the officer or employee is an investment officer designated under Subsection (f) for another local government.

(i) An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

- (1) the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;

(2) funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or

(3) the investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

(j) The governing body of an investing entity may specify in its investment policy that any investment authorized by this chapter is not suitable.

(k) A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with an investing entity or to an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. For purposes of this subsection, a business organization includes investment pools and an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. Nothing in this subsection relieves the investing entity of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy. The qualified representative of the business organization offering to engage in an investment transaction with an investing entity shall execute a written instrument in a form acceptable to the investing entity and the business organization substantially to the effect that the business organization has:

(1) received and reviewed the investment policy of the entity; and

(2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

(l) The investment officer of an entity may not acquire or otherwise obtain any authorized investment described in the investment policy of the investing entity from a person who has not delivered to the entity the instrument required by Subsection (k).

(m) An investing entity other than a state agency, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the entity's established investment policies.

(n) Except as provided by Subsection (o), at least once every two years a state agency shall arrange for a compliance audit of management controls on investments and adherence to the agency's established investment policies. The compliance audit shall be performed by the agency's internal auditor or by a private auditor employed in the manner provided by Section 321.020. Not later than January 1 of each even-numbered year a state agency shall report the results of the most recent audit performed under this subsection

to the state auditor. Subject to a risk assessment and to the legislative audit committee's approval of including a review by the state auditor in the audit plan under Section 321.013, the state auditor may review information provided under this section. If review by the state auditor is approved by the legislative audit committee, the state auditor may, based on its review, require a state agency to also report to the state auditor other information the state auditor determines necessary to assess compliance with the laws and policies applicable to state agency investments. A report under this subsection shall be prepared in a manner the state auditor prescribes.

(o) The audit requirements of Subsection (n) do not apply to assets of a state agency that are invested by the comptroller under Section 404.024.

Sec. 2256.006. Standard of Care.

(a) Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority:

- (1) preservation and safety of principal;
- (2) liquidity; and
- (3) yield.

(b) In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- (1) the investment of all funds, or funds under the entity's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
- (2) whether the investment decision was consistent with the written investment policy of the entity.

Sec. 2256.007. Investment Training; State Agency Board Members and Officers.

(a) Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties.

(b) The Texas Higher Education Coordinating Board shall provide the training under this section.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) An investment officer shall attend a training session not less than once in a two-year period and may receive training from any independent source approved by the governing body of the state agency. The investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature.

Sec. 2256.008. Investment Training; Local Governments.

(a) Except as provided by Subsection (b) and (e), the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:

(1) attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided by the investment policy of the local government and containing at least 10 hours of instruction relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and

(2) except as provided by Subsection (b), attend an investment training session not less than once in a two-year period and receive not less than 10 hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government.

(b) An investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, that has contracted with an investment management firm under Section 2256.003(b) and has fewer than five full-time employees or an investing entity that has contracted with another investing entity to invest the entity's funds may satisfy the training requirement provided by Subsection (a)(2) by having an officer of the governing body attend four hours of appropriate instruction in a two-year period. The treasurer or chief financial officer of an investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, and that has fewer than five full-time employees is not required to attend training required by this section unless the person is also the investment officer of the entity.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) Not later than December 31 each year, each individual, association, business, organization, governmental entity, or other person that provides training under this section shall report to the comptroller a list of the governmental entities for which the person provided required training under this section during that calendar year. An individual's reporting requirements under this subsection are satisfied by a report of the individual's employer or the sponsoring or organizing entity of a training program or seminar.

(e) This section does not apply to a district governed by Chapter 36 or 49, Water Code.

Sec. 2256.009. Authorized Investments: Obligations of, or Guaranteed by Governmental Entities.

(a) Except as provided by Subsection (b), the following are authorized investments under this subchapter:

(1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;

(2) direct obligations of this state or its agencies and instrumentalities;

(3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

(4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities;

(5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; and

(6) bonds issued, assumed, or guaranteed by the State of Israel.

(b) The following are not authorized investments under this section:

(1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;

(2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

(3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and

(4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Sec. 2256.010. Authorized Investments: Certificates of Deposit and Share Certificates.

A certificate of deposit is an authorized investment under this subchapter if the certificate is issued by a state or national bank domiciled in this state, a

savings bank domiciled in this state, or a state or federal credit union domiciled in this state and is:

- (1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;
- (2) secured by obligations that are described by Section 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b); or
- (3) secured in any other manner and amount provided by law for deposits of the investing entity.

Sec. 2256.011. Authorized Investments: Repurchase Agreements.

(a) A fully collateralized repurchase agreement is an authorized investment under this subchapter if the repurchase agreement:

- (1) has a defined termination date;
- (2) is secured by obligations described by Section 2256.009(a)(1); and
- (3) requires the securities being purchased by the entity to be pledged to the entity, held in the entity's name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the entity; and
- (4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

(b) In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Section 2256.009(a)(1), at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

(c) Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

(d) Money received by an entity under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

Sec. 2256.0115. Authorized Investments: Securities Lending Program

(a) A securities lending program is an authorized investment under this subchapter if it meets the conditions provided by this section.

(b) To qualify as an authorized investment under this subchapter:

(1) the value of securities loaned under the program must be not less than 100 percent collateralized, including accrued income;

(2) a loan made under the program must allow for termination at any time;

(3) a loan made under the program must be secured by:

(A) pledged securities described by Section 2256.009;

(B) pledged irrevocable letters of credit issued by a bank that is:

(i) organized and existing under the laws of the United States or any other state; and

(ii) continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent; or

(C) cash invested in accordance with Section:

(i) 2256.009;

(ii) 2256.013;

(iii) 2256.014; or

(iv) 2256.016

(4) the terms of a loan made under the program must require that the securities being held as collateral be:

(A) pledged to the investing entity;

(B) held in the investing entity's name, and;

(C) deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity;

(5) a loan made under the program must be placed through:

(A) a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f) (Exhibit H), as that regulation existed on September 1, 2003; or

(B) a financial institution doing business in this state; and

6) an agreement to lend securities that is executed under this section must have a term of one year or less.

Sec. 2256.012. Authorized Investments: Banker's Acceptances.

A bankers' acceptance is an authorized investment under this subchapter if the bankers' acceptance:

- (1) has a stated maturity of 270 days or fewer from the date of its issuance;
- (2) will be, in accordance with its terms, liquidated in full at maturity;
- (3) is eligible for collateral for borrowing from a Federal Reserve Bank; and
- (4) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

Sec. 2256.013. Authorized Investments: Commercial Paper.

Commercial paper is an authorized investment under this subchapter if the commercial paper:

- (1) has a stated maturity of 270 days or fewer from the date of its issuance; and
- (2) is rated not less than A-1 or P-1 or an equivalent rating by at least:
 - (A) two nationally recognized credit rating agencies; or
 - (B) one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

Sec. 2256.014. Authorized Investments: Mutual Funds.

(a) A no-load money market mutual fund is an authorized investment under this subchapter if the mutual fund:

- (1) is registered with and regulated by the Securities and Exchange Commission;
- (2) provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);
- (3) has a dollar-weighted average stated maturity of 90 days or fewer; and
- (4) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

(b) In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (a), a no-load mutual fund is an authorized investment under this subchapter if the mutual fund:

- (1) is registered with the Securities and Exchange Commission;
- (2) has an average weighted maturity of less than two years;
- (3) is invested exclusively in obligations approved by this subchapter;
- (4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
- (5) conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

(c) An entity is not authorized by this section to:

- (1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Subsection (b);
- (2) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Subsection (b); or
- (3) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Subsection (a) or (b) in an amount that exceeds 10 percent of the total assets of the mutual fund.

Sec. 2256.015. Authorized Investments: Guaranteed Investment Contracts.

(a) A guaranteed investment contract is an authorized investment for bond proceeds under this subchapter if the guaranteed investment contract:

- (1) has a defined termination date;
- (2) is secured by obligations described by Section 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract; and
- (3) is pledged to the entity and deposited with the entity or with a third party selected and approved by the entity.

(b) Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under this subchapter in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.

(c) To be eligible as an authorized investment:

- (1) the governing body of the entity must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;
- (2) the entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;
- (3) the entity must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
- (4) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and
- (5) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Sec. 2256.016. Authorized Investments: Investment Pools.

(a) An entity may invest its funds and funds under its control through an eligible investment pool if the governing body of the entity by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter.

(b) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

- (1) the types of investments in which money is allowed to be invested;
- (2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
- (3) the maximum stated maturity date any investment security within the portfolio has;
- (4) the objectives of the pool;
- (5) the size of the pool;
- (6) the names of the members of the advisory board of the pool and the dates their terms expire;
- (7) the custodian bank that will safekeep the pool's assets;
- (8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;

(9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;

(10) the name and address of the independent auditor of the pool;

(11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and

(12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

(c) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity:

(1) investment transaction confirmations; and

(2) a monthly report that contains, at a minimum, the following information:

(A) the types and percentage breakdown of securities in which the pool is invested;

(B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;

(C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;

(D) the book value versus the market value of the pool's portfolio, using amortized cost valuation;

(E) the size of the pool;

(F) the number of participants in the pool;

(G) the custodian bank that is safekeeping the assets of the pool;

(H) a listing of daily transaction activity of the entity participating in the pool;

(I) the yield and expense ratio of the pool;

(J) the portfolio managers of the pool; and

(K) any changes or addenda to the offering circular.

(d) An entity by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

(e) In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

(f) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

(g) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool must have an advisory board composed:

(1) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 and managed by a state agency; or

(2) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

(h) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

Sec. 2256.017. Existing Investments.

An entity is not required to liquidate investments that were authorized investments at the time of purchase.

Sec. 2256.019. Rating of Certain Investment Pools.

A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days.

Sec. 2256.020. Authorized Investments: Institutions of Higher Education.

In addition to the authorized investments permitted by this subchapter, an institution of higher education may purchase, sell, and invest its funds and funds under its control in the following:

(1) cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f));

(2) negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency; and

(3) corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.

Sec. 2256.0201. Authorized Investments; Municipal Utility

(a) A municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may enter into a hedging contract and related security and insurance agreements in relation to fuel oil, natural gas, and electric energy to protect against loss due to price fluctuations. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the Securities and Exchange Commission. If there is a conflict between the municipal charter of the municipality and this chapter, this chapter prevails.

(b) A payment by a municipally owned electric and gas utility under a hedging contract or related agreement in relation to fuel supplies or fuel reserves is a fuel expense, and the utility may credit any amounts it receives under the contract or agreement against fuel expenses.

(c) The governing body of a municipally owned electric or gas utility or the body vested with power to manage and operate the municipally owned electric or gas utility may set policy regarding hedging transactions.

(d) In this section, "hedging" means the buying and selling of fuel oil, natural gas, and electric energy futures or options or similar contracts on those commodity futures as a protection against loss due to price fluctuation.

Sec. 2256.021. Effect of Loss of Required Rating.

An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. An entity shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

Sec. 2256.022. Expansion of Investment Authority.

Expansion of investment authority granted by this chapter shall require a risk assessment by the state auditor or performed at the direction of the state auditor,

subject to the legislative audit committee's approval of including the review in the audit plan under Section 321.013.

Sec. 2256.023. Internal Management Reports.

(a) Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.

(b) The report must:

(1) describe in detail the investment position of the entity on the date of the report;

(2) be prepared jointly by all investment officers of the entity;

(3) be signed by each investment officer of the entity;

(4) contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the:

(A) beginning market value for the reporting period;

(B) additions and changes to the market value during the period;

(C) ending market value for the period; and

(D) fully accrued interest for the reporting period;

(5) state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;

(6) state the maturity date of each separately invested asset that has a maturity date;

(7) state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; and

(8) state the compliance of the investment portfolio of the state agency or local government as it relates to:

(A) the investment strategy expressed in the agency's or local government's investment policy; and

(B) relevant provisions of this chapter.

(c) The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period.

(d) If an entity invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

Sec. 2256.024. Subchapter Cumulative.

(a) The authority granted by this subchapter is in addition to that granted by other law. Except as provided by Subsection (b), this subchapter does not:

- (1) prohibit an investment specifically authorized by other law; or
- (2) authorize an investment specifically prohibited by other law.

(b) Except with respect to those investing entities described in Subsection (c), a security described in Section 2256.009(b) is not an authorized investment for a state agency, a local government, or another investing entity, notwithstanding any other provision of this chapter or other law to the contrary.

(c) Mortgage pass-through certificates and individual mortgage loans that may constitute an investment described in Section 2256.009(b) are authorized investments with respect to the housing bond programs operated by:

- (1) the Texas Department of Housing and Community Affairs or a nonprofit corporation created to act on its behalf;
- (2) an entity created under Chapter 392, Local Government Code; or
- (3) an entity created under Chapter 394, Local Government Code.

Sec. 2256.025. Selection of Authorized Brokers.

The governing body of an entity subject to this subchapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

Sec. 2256.026. Statutory Compliance.

All investments made by entities must comply with this subchapter and all federal, state, and local statutes, rules, or regulations.

SUBCHAPTER B. MISCELLANEOUS PROVISIONS

Sec. 2256.051. Electronic Funds Transfer.

Any local government may use electronic means to transfer or invest all funds collected or controlled by the local government.

Sec. 2256.052. Private Auditor.

Notwithstanding any other law, a state agency shall employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the governing body of the agency.

Sec. 2256.053. Payment for Securities Purchased by State.

The comptroller or the disbursing officer of an agency that has the power to invest assets directly may pay for authorized securities purchased from or through a member in good standing of the National Association of Securities Dealers or from or through a national or state bank on receiving an invoice from the seller of the securities showing that the securities have been purchased by the board or agency and that the amount to be paid for the securities is just, due, and unpaid. A purchase of securities may not be made at a price that exceeds the existing market value of the securities.

Sec. 2256.054. Delivery of Securities Purchased by State.

A security purchased under this chapter may be delivered to the comptroller, a bank, or the board or agency investing its funds. The delivery shall be made under normal and recognized practices in the securities and banking industries, including the book entry procedure of the Federal Reserve Bank.

Sec. 2256.055. Deposit of Securities Purchased by State.

At the direction of the comptroller or the agency, a security purchased under this chapter may be deposited in trust with a bank or federal reserve bank or branch designated by the comptroller, whether in or outside the state. The deposit shall be held in the entity's name as evidenced by a trust receipt of the bank with which the securities are deposited.

APPENDIX C

CHAPTER 2257. COLLATERAL FOR PUBLIC FUNDS

SUBCHAPTER A. GENERAL PROVISIONS

§ 2257.001. Short Title

This chapter may be cited as the Public Funds Collateral Act.

§ 2257.002. Definitions

In this chapter:

- (1) "Bank holding company" has the meaning assigned by Section 31.002(a), Finance Code.
- (2) "Control" has the meaning assigned by Section 31.002(a), Finance Code.
- (3) "Deposit of public funds" means public funds of a public entity that:
 - (A) the comptroller does not manage under Chapter 404; and
 - (B) are held as a demand or time deposit by a depository institution expressly authorized by law to accept a public entity's demand or time deposit.
- (4) "Eligible security" means:
 - (A) a surety bond;
 - (B) an investment security;
 - (C) an ownership or beneficial interest in an investment security, other than an option contract to purchase or sell an investment security;
 - (D) a fixed-rate collateralized mortgage obligation that has an expected weighted average life of 10 years or less and does not constitute a high-risk mortgage security; or
 - (E) a floating-rate collateralized mortgage obligation that does not constitute a high-risk mortgage security.
- (5) "Investment security" means:
 - (A) an obligation that in the opinion of the attorney general of the United States is a general obligation of the United States and backed by its full faith and credit;
 - (B) a general or special obligation issued by a public agency that is payable from taxes, revenues, or a combination of taxes and revenues; or
 - (C) a security in which a public entity may invest under Subchapter A, Chapter 2256.

(6) "Permitted institution" means:

(A) a Federal Reserve Bank;

(B) a clearing corporation, as defined by Section 8.102, Business & Commerce Code;

(C) a bank eligible to be a custodian under Section 2257.041; or

(D) a state or nationally chartered bank that is controlled by a bank holding company that controls a bank eligible to be a custodian under Section 2257.041.

(7) "Public agency" means a state or a political or governmental entity, agency, instrumentality, or subdivision of a state, including a municipality, an institution of higher education, as defined by Section 61.003, Education Code, a junior college, a district created under Article XVI, Section 59, of the Texas Constitution, and a public hospital.

(8) "Public entity" means a public agency in this state, but does not include an institution of higher education, as defined by Section 61.003, Education Code.

(9) "State agency" means a public entity that:

(A) has authority that is not limited to a geographic portion of the state; and

(B) was created by the constitution or a statute.

(10) "Trust receipt" means evidence of receipt, identification, and recording, including:

(A) a physical controlled trust receipt; or

(B) a written or electronically transmitted advice of transaction.

§ 2257.0025. High-Risk Mortgage Security

(a) For purposes of this chapter, a fixed-rate collateralized mortgage obligation is a high-risk mortgage security if the security:

(1) has an average life sensitivity with a weighted average life that:

(A) extends by more than four years, assuming an immediate and sustained parallel shift in the yield curve of plus 300 basis points; or

(B) shortens by more than six years, assuming an immediate and sustained parallel shift in the yield curve of minus 300 basis points; and

(2) is price sensitive; that is, the estimated change in the price of the mortgage derivative product is more than 17 percent, because of an

immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

(b) For purposes of this chapter, a floating-rate collateralized mortgage obligation is a high-risk mortgage security if the security:

(1) bears an interest rate that is equal to the contractual cap on the instrument; or

(2) is price sensitive; that is, the estimated change in the price of the mortgage derivative product is more than 17 percent, because of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

§ 2257.003. Chapter Not Applicable to Deferred Compensation Plans

This chapter does not apply to funds that a public entity maintains or administers under a deferred compensation plan, the federal income tax treatment of which is governed by Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Sections 401(k) and 457).

This chapter prevails over any other law relating to security for a deposit of public funds to the extent of any conflict.

§ 2257.005. Contract Governs Legal Action

A legal action brought by or against a public entity that arises out of or in connection with the duties of a depository, custodian, or permitted institution under this chapter must be brought and maintained as provided by the contract with the public entity.

SUBCHAPTER B. DEPOSITORY; SECURITY FOR DEPOSIT OF PUBLIC FUNDS

§ 2257.021. Collateral Required

A deposit of public funds shall be secured by eligible security to the extent and in the manner required by this chapter.

§ 2257.022. Amount of Collateral

(a) The total value of eligible security to secure a deposit of public funds must be in an amount not less than the amount of the deposit of public funds:

(1) increased by the amount of any accrued interest; and

(2) reduced to the extent that the United States or an instrumentality of the United States insures the deposit.

(b) The value of a surety bond is its face value.

(c) The value of an investment security is its market value.

§ 2257.023. Collateral Policy

(a) In accordance with a written policy approved by the governing body of the public entity, a public entity shall determine if an investment security is eligible to secure deposits of public funds.

(b) The written policy may include:

(1) the security of the institution that obtains or holds an investment security;

(2) the substitution or release of an investment security; and

(3) the method by which an investment security used to secure a deposit of public funds is valued.

§ 2257.024. Contract for Securing Deposit of Public Funds

(a) A public entity may contract with a bank that has its main office or a branch office in this state to secure a deposit of public funds.

(b) The contract may contain a term or condition relating to an investment security used as security for a deposit of public funds, including a term or condition relating to the:

(1) possession of the collateral;

(2) substitution or release of an investment security;

(3) ownership of the investment securities of the bank used to secure a deposit of public funds; and

(4) method by which an investment security used to secure a deposit of public funds is valued.

§ 2257.025. Records of Depository

(a) A public entity's depository shall maintain a separate, accurate, and complete record relating to a pledged investment security, a deposit of public funds, and a transaction related to a pledged investment security.

(b) The comptroller or the public entity may examine and verify at any reasonable time a pledged investment security or a record a depository maintains under this section.

§ 2257.026. Change in Amount or Activity of Deposits of Public Funds

A public entity shall inform the depository for the public entity's deposit of public funds of a significant change in the amount or activity of those deposits within a reasonable time before the change occurs.

SUBCHAPTER C. CUSTODIAN; PERMITTED INSTITUTION

§ 2257.041. Deposit of Securities With Custodian

(a) In addition to other authority granted by law, a depository for a public entity other than a state agency may deposit with a custodian a security pledged to secure a deposit of public funds.

(b) At the request of the public entity, a depository for a public entity other than a state agency shall deposit with a custodian a security pledged to secure a deposit of public funds.

(c) A depository for a state agency shall deposit with a custodian a security pledged to secure a deposit of public funds. The custodian and the state agency shall agree in writing on the terms and conditions for securing a deposit of public funds.

(d) A custodian must be approved by the public entity and be:

(1) a state or national bank that:

(A) is designated by the comptroller as a state depository;

(B) has its main office or a branch office in this state; and

(C) has a capital stock and permanent surplus of \$5 million or more;

(2) the Texas Treasury Safekeeping Trust Company;

(3) a Federal Reserve Bank or a branch of a Federal Reserve Bank; or

(4) a federal home loan bank.

(e) A custodian holds in trust the securities to secure the deposit of public funds of the public entity in the depository pledging the securities.

§ 2257.042. Deposit of Securities With Permitted Institution

(a) A custodian may deposit with a permitted institution an investment security the custodian holds under Section 2257.041.

(b) If a deposit is made under Subsection (a):

(1) the permitted institution shall hold the investment security to secure funds the public entity deposits in the depository that pledges the investment security;

(2) the trust receipt the custodian issues under Section 2257.045 shall show that the custodian has deposited the security in a permitted institution; and

(3) the permitted institution, on receipt of the investment security, shall immediately issue to the custodian an advice of transaction or

other document that is evidence that the custodian deposited the security in the permitted institution.

§ 2257.043. Depository as Custodian or Permitted Institution

(a) A public entity other than a state agency may prohibit a depository or an entity of which the depository is a branch from being the custodian of or permitted institution for a security the depository pledges to secure a deposit of public funds.

(b) A depository or an entity of which the depository is a branch may not be the custodian of or permitted institution for a security the depository pledges to secure a deposit of public funds by a state agency.

§ 2257.044. Custodian as Bailee

(a) A custodian under this chapter or a custodian of a security pledged to an institution of higher education, as defined by Section 61.003, Education Code, whether acting alone or through a permitted institution, is for all purposes the bailee or agent of the public entity or institution depositing the public funds with the depository.

(b) To the extent of any conflict, Subsection (a) prevails over Chapter 8 or 9, Business & Commerce Code.

§ 2257.045. Receipt of Security by Custodian

On receipt of an investment security, a custodian shall:

(1) immediately identify on its books and records, by book entry or another method, the pledge of the security to the public entity; and

(2) promptly issue and deliver to the appropriate public entity officer a trust receipt for the pledged security.

§ 2257.046. Books and Records of Custodian; Inspection

(a) A public entity's custodian shall maintain a separate, accurate, and complete record relating to each pledged investment security and each transaction relating to a pledged investment security.

(b) The comptroller or the public entity may examine and verify at any reasonable time a pledged investment security or a record a custodian maintains under this section. The public entity or its agent may inspect at any time an investment security evidenced by a trust receipt.

(c) The public entity's custodian shall file a collateral report with the comptroller in the manner and on the dates prescribed by the comptroller.

§ 2257.047. Books and Records of Permitted Institution

(a) A permitted institution may apply book entry procedures when an investment security held by a custodian is deposited under Section 2257.042.

(b) A permitted institution's records must at all times state the name of the custodian that deposits an investment security in the permitted institution.

§ 2257.048. Attachment and Perfection of Security Interest

(a) A security interest that arises out of a depository's pledge of a security to secure a deposit of public funds by a public entity or an institution of higher education, as defined by Section 61.003, Education Code, is created, attaches, and is perfected for all purposes under state law from the time that the custodian identifies the pledge of the security on the custodian's books and records and issues the trust receipt.

(b) A security interest in a pledged security remains perfected in the hands of a subsequent custodian or permitted institution.

SUBCHAPTER D. AUDITS AND EXAMINATIONS; PENALTIES

§ 2257.061. Audits and Examinations

As part of an audit or regulatory examination of a public entity's depository or custodian, the auditor or examiner shall:

(1) examine and verify pledged investment securities and records maintained under Section 2257.025 or 2257.046; and

(2) report any significant or material noncompliance with this chapter to the comptroller.

§ 2257.062. Penalties

(a) The comptroller may revoke a depository's designation as a state depository for one year if, after notice and a hearing, the comptroller makes a written finding that the depository, while acting as either a depository or a custodian:

(1) did not maintain reasonable compliance with this chapter; and

(2) failed to remedy a violation of this chapter within a reasonable time after receiving written notice of the violation.

(b) The comptroller may permanently revoke a depository's designation as a state depository if the comptroller makes a written finding that the depository:

(1) has not maintained reasonable compliance with this chapter; and

(2) has acted in bad faith by not remedying a violation of this chapter.

§ 2257.063. Mitigating Circumstances

(a) The comptroller shall consider the total circumstances relating to the performance of a depository or custodian when the comptroller makes a finding

required by Section 2257.062, including the extent to which the noncompliance is minor, isolated, temporary, or nonrecurrent.

(b) The comptroller may not find that a depository or custodian did not maintain reasonable compliance with this chapter if the noncompliance results from the public entity's failure to comply with Section 2257.026.

(c) This section does not relieve a depository or custodian of the obligation to secure a deposit of public funds with eligible security in the amount and manner required by this chapter within a reasonable time after the public entity deposits the deposit of public funds with the depository.

§ 2257.064. Reinstatement

The comptroller may reinstate a depository's designation as a state depository if:

(1) the comptroller determines that the depository has remedied all violations of this chapter; and

(2) the depository assures the comptroller to the comptroller's satisfaction that the depository will maintain reasonable compliance with this chapter.

SUBCHAPTER E. EXEMPT INSTITUTIONS

§ 2257.081. Definition

In this subchapter, "exempt institution" means:

(1) a public retirement system, as defined by Section 802.001; or

(2) the permanent school fund, as described by Section 43.001, Education Code.

§ 2257.082. Funds of Exempt Institution

An exempt institution is not required to have its funds fully insured or collateralized at all times if:

(1) the funds are held by:

(A) a custodian of the institution's assets under a trust agreement; or

(B) a person in connection with a transaction related to an investment; and

(2) the governing body of the institution, in exercising its fiduciary responsibility, determines that the institution is adequately protected by using a trust agreement, special deposit, surety bond, substantial deposit insurance, or other method an exempt institution commonly uses to protect itself from liability.

§ 2257.083. Investment; Selection of Depository

This chapter does not:

Chapter 2257, Public Funds Collateral Act

(1) prohibit an exempt institution from prudently investing in a certificate of deposit; or

(2) restrict the selection of a depository by the governing body of an exempt institution in accordance with its fiduciary duty.

APPENDIX D



**City
Public
Service**

Committed to the People We Serve

CPS COLLATERAL POLICY RESOLUTION

The following resolution relating the revision and adoption of the CPS Collateral Policy was presented for consideration and approval by the Board of Trustees:

"WHEREAS, section 2257.023 of the Texas Government Code requires that the City Public Service Board adopt a policy concerning the collateral pledged to secure the deposit of CPS funds in a depository bank or other financial institution;

NOW THEREFORE BE IT RESOLVED that the attached Collateral Policy, as revised, is hereby approved and adopted by the Board of Trustees."

I, V. GARY SCHAUB, Secretary of the City Public Service Board of San Antonio, do hereby certify that the above foregoing is a true and correct copy of a resolution adopted by the unanimous vote of the Trustees of the Board present at the regular meeting of the Board held on Monday, December 29, 2003.

I hereby further certify that the resolution, as adopted by the Board of Trustees at this meeting, has not been modified, rescinded nor amended since its adoption.

V. Gary Schaub
City Public Service Board
of San Antonio, Texas

CPS COLLATERAL POLICY

This CPS Collateral Policy is the attachment referenced in the CPS Collateral Policy Resolution, dated December 29, 2003.

In accordance with section 2257.023 of the Texas Government Code, the City Public Service Board adopts this policy concerning collateral pledged to secure the deposit of CPS funds in a depository bank or other financial institution ("Depository").

1. Only securities held in book-entry form can be pledged as collateral to secure the deposit of CPS funds. Beneficial interests in securities may not be pledged.
2. The securities pledged as collateral to secure the deposit of CPS funds must be obligations of the United States of America or its agencies and instrumentalities (other than letters of credit, which are not acceptable collateral). All securities pledged as collateral must be approved by the Secretary-Treasurer, the Assistant Secretary-Treasurer or the designee of either one.
3. The market value of the collateral pledged must be equal to or exceed the amount of CPS funds deposited with the Depository, increased by the amount, if any, of accrued interest. The market value of the collateral shall be determined by reasonable commercial means, and the Depository shall certify to CPS, on a monthly basis, the market value of the collateral. For this purpose, the amount of funds considered to be on deposit in demand deposit accounts shall be the daily ledger balance of the accounts, and not the collected balance.
4. Once a Depository has pledged securities as collateral, the Depository may make substitutions of collateral, so long as the substituted securities comply with all of the provisions of this Policy and the terms of the depository agreement between the Depository and CPS. The Secretary-Treasurer, the Assistant Secretary-Treasurer, or a designee of either one must approve the substituted securities.
5. The securities pledged as collateral by the Depository must be held by a custodian in escrow in a safekeeping account. Sub-custodians are not permitted and the custodian may not transfer or deposit the securities in another institution. The following may act as custodians for

CPS COLLATERAL POLICY

This CPS Collateral Policy is the attachment referenced in the CPS Collateral Policy Resolution, dated December 29, 2003.

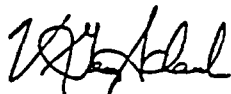
this purpose: (1) the Federal Reserve Bank, Dallas Branch; (2) a federal home loan bank in the San Antonio area; (3) an independent state or national bank in San Antonio with no affiliation to the depository which meets the following requirements: (a) the bank must have its main office or a branch office in Texas; (b) the bank must be designated a state depository by the Texas Comptroller; (c) the bank must have a capital stock and permanent surplus of not less than five millions dollars; and (d) the bank must be approved as a custodian in writing by the Secretary-Treasurer, the Assistant Secretary-Treasurer or the designee of either one.

6. CPS may impose additional requirements concerning the collateral pledged to secure the deposit of CPS funds in the depository or other agreements with the Depository, so long as such additional requirements do not conflict with the provisions of this policy.

This financial policy supersedes previous resolutions/policies made regarding collateral transactions and authorized appointments. A certified copy of the Board of Trustees Resolution approving and adopting this policy will be furnished to all banks, investment firms and brokers and others transacting business with CPS. Banks will be notified by either the Secretary-Treasurer or the Assistant Secretary-Treasurer to the Board of Trustees of the individual names of those who hold positions specified, including designees, in this financial policy.

I, V. GARY SCHAUB, Secretary of the City Public Service Board of San Antonio, do hereby certify that the above foregoing is a true and correct copy of the attachment referenced in the CPS Collateral Policy Resolution, adopted by the unanimous vote of the Trustees of the Board present at the regular meeting of the Board held on Monday, December 29, 2003.

I hereby further certify that the financial policy, as adopted by the Board of Trustees at this meeting, has not been modified, rescinded nor amended since its adoption.



V. Gary Schaub
City Public Service Board
of San Antonio, Texas

APPENDIX E

**APPENDIX E
AUTHORIZED INVESTMENTS
PUBLIC FUNDS INVESTMENT ACT OF TEXAS**

INVESTMENT OPTIONS	MAXIMUM PERCENT [3]	MAXIMUM YEARS TO MATURITY
(1) Obligations of the United States or its agencies, including Letters of Credit	100	Final Decommissioning
(2) Direct obligations of the State of Texas or its agencies	50	Final Decommissioning
(3) Collateralized Mortgage Obligations issued by the United States	50	10 [2]
(4) Other obligations whose principal and interest are guaranteed by the United States or State of Texas	50	Final Decommissioning
(5) Investment quality obligations rated A or better of states, agencies, counties, cities and political subdivisions of any state	50 [1]	Final Decommissioning
(6) Fully secured Certificates of Deposit issued by a state, national bank or savings bank domiciled in the State of Texas	50	10
(7) Securites Lending programs with agreements of one year or less	75	1
(8) Direct Repurchase Agreements	50	1
(9) Reverse Repurchase Agreements	50	90 Days
(10) Bankers Acceptances rated A-1, P-1, or equivalent	50	270 Days
(11) Commercial Paper, rated A-1 or P-1 or its equivalent	50	270 Days
(12) No-load Money Market Mutual Fund with a NAV of \$1	100	90 Day WAM [4]
(13) No-load Mutual Fund rated AAA or equivalent	15	2 Yr WAM [4]
(14) Investment Pools structured as Money Markets	100	90 Day WAM [4]
Investment Pools structured as mutual funds	15	2 Yr WAM [4]

Notes: [1] Cannot invest in securities of the City of San Antonio, TX or its agencies, or in securities of any utility which has ownership of a nuclear generating facility (to include the City of Austin, TX or its agencies). See Section IX (Prohibited Transactions) of the Investment Policy.

[2] Limited by the Public Funds Investment Act.

[3] Percentage of book value of security plus accrued interest, if any.

[4] WAM refers to Weighted Average Maturity

APPENDIX F



City Public Service
of
San Antonio, Texas

CPS INVESTMENT AND BANKING RESOLUTION

The following resolution relating to CPS' investment and banking activities was presented for consideration and approval by the Board of Trustees:

"WHEREAS, the Board of Trustees of the City Public Service Board of San Antonio, Texas, is responsible for the prudent handling and control of funds and investments of the City Public Service Board (CPS); and

WHEREAS, the Board of Trustees of the City Public Service Board of San Antonio, Texas, is required to designate and authorize specific CPS Officers and staff to conduct financial transactions on behalf of CPS and the CPS Restated Decommissioning Master Trust for the South Texas Project and Hedge Instrument transactions on behalf of CPS; and


WHEREAS, a financial authorizations and approvals policy must be provided to banks, investment firms, brokers and other trading entities in order to conduct banking, investment and Hedge Instrument transactions in the daily operations of CPS;

NOW THEREFORE BE IT RESOLVED that the Board hereby approves the following:

The Board of Trustees finds that the CPS Financial Authorizations and Approvals Policy For Banking, Investments and Hedging as attached hereto, is in compliance with the requirements of State Statutes and Bond and TECP Ordinances and is hereby adopted and incorporated into this resolution by reference."

I, V. GARY SCHAUB, Secretary of the City Public Service Board of San Antonio, do hereby certify that the above foregoing is a true and correct copy of a resolution adopted by the unanimous vote of the Trustees of the Board present at the regular meeting of the Board held on Monday, December 29, 2003.

I hereby further certify that the resolution, as adopted by the Board of Trustees at this meeting, has not been modified, rescinded nor amended since its adoption.


V. Gary Schaub
City Public Service Board
of San Antonio, Texas

CPS FINANCIAL AUTHORIZATIONS AND APPROVALS POLICY FOR BANKING, INVESTMENTS AND HEDGING

This CPS Financial Authorizations and Approvals Policy for Banking, Investments and Hedging is the attachment referenced in the CPS Investment and Banking Resolution, dated December 29, 2003.

Banking

The CPS Officers ("Officers") listed below, or any persons appointed to fill those positions in an interim capacity, are authorized to act in the name of City Public Service to establish, maintain and close bank accounts, including those for the CPS Restated Decommissioning Master Trust for the South Texas Project:

General Manager and CEO
Secretary-Treasurer
Assistant Secretary-Treasurer

Authority to open a bank account requires the signatures of at least two Officers. To close an account requires written notification to a bank by any two Officers.

Any two Officers may authorize the use of any form of facsimile signature for any other of the above persons for signing checks drawn on any bank account in the name of City Public Service. In doing so, they will ensure that adequate controls and safeguards, as periodically reviewed by the CPS independent auditors, are maintained.

Any two Officers may authorize financial transactions. In addition, any two Officers may designate and identify to a bank other authorized employees ("Authorized Employees") who may approve financial transactions when, and only when, joined by at least one Officer.

Payments to be made on behalf of CPS by wire or any other electronic funds transfer process may be approved by any two Officers or by one Officer and an Authorized Employee. These wire or electronic funds transfers may be by specific transaction authorization or by blank authorization in the case of repetitive or recurring transactions. An Authorized Employee may execute wire or other electronic fund transactions associated with CPS accounts that have been preauthorized by two of the above Officers or by any Officer and another Authorized Employee. Approved repetitive wire or other electronic fund transactions will normally be communicated to the bank each applicable pay date by a person(s) designated, and identified to the bank, by two Officers. Transmittal registers or confirmation advices for payments made electronically may be approved by one CPS Officer or other employee designated to approve such confirmations.

Any two Officers, or any one of them and an Authorized Employee, are authorized to release or substitute collateral securities pledged to secure City Public Service funds.

CPS FINANCIAL AUTHORIZATIONS AND APPROVALS POLICY FOR BANKING, INVESTMENTS AND HEDGING

This CPS Financial Authorizations and Approvals Policy for Banking, Investments and Hedging is the attachment referenced in the CPS Investment and Banking Resolution, dated December 29, 2003.

Investments

The Officers listed below, or any persons appointed to fill those positions in an interim capacity, are authorized to act in the name of City Public Service to establish, maintain and close trading authorizations, including those for the CPS Restated Decommissioning Master Trust for the South Texas Project:

CEO and General Manager
Secretary-Treasurer
Assistant Secretary-Treasurer

Authority to establish a trade authorization requires the signature of two Officers furnished to the bank or investment firm. To close a trade authorization requires written notification to the bank or investment firm by any two Officers.

Any two Officers may approve financial investment transactions. In addition, any two Officers may designate and identify to a bank or investment firm other Authorized Employees who may approve investment transactions when, and only when, joined by at least one Officer.

An Authorized Employee when joined by at least one Officer may execute any and all instruments necessary or required by a bank or investment firm to purchase or sell securities in the name of City Public Service and the CPS Restated Decommissioning Master Trust for the South Texas Project. Two Officers, or one Officer and an Authorized Employee, will provide written confirmation of investment transactions to applicable safekeeping institutions, except that the routine transfer of CPS funds to a designated CPS money market mutual fund account that has been pre-authorized by two Officers or one Officer and one Authorized Employee does not require such written confirmation.

An Authorized Employee may purchase or sell securities associated with CPS accounts that have been pre-authorized by two Officers or by one Officer and another Authorized Employee. Preauthorized transactions may be communicated to the safekeeping agent by any one Officer or any one Authorized Employee.

The designated core members of CPS' Investment Strategy Committee are listed below, and include any persons appointed to fill those positions in an interim capacity:

Secretary-Treasurer
Assistant Secretary-Treasurer

These core members are also authorized to appoint additional individuals to the CPS Investment Strategy Committee, as they deem appropriate to carry out the functions and responsibilities established in the CPS Investment Policy and the CPS Restated Decommissioning Master Trust for the South Texas Project Investment Policy. The Investment Strategy Committee is authorized to designate individuals who will serve on the CPS Investment Operations Committee. The Secretary-Treasurer for CPS will serve as the chairperson of the Investment Strategy Committee. The Secretary-Treasurer, Assistant Secretary-Treasurer and any Authorized Employee who purchases or sells securities are designated as Investment

CPS FINANCIAL AUTHORIZATIONS AND APPROVALS POLICY FOR BANKING, INVESTMENTS AND HEDGING

This CPS Financial Authorizations and Approvals Policy for Banking, Investments and Hedging is the attachment referenced in the CPS Investment and Banking Resolution, dated December 29, 2003.

Officers for purposes of the CPS Investment Policy and the CPS Restated Decommissioning Master Trust Agreement for the South Texas Project Investment Policy.

Any two Officers, or any one of them and an Authorized Employee, are authorized to release or substitute collateral securities pledged to secure City Public Service funds.

Hedging

Any two of the following CPS Hedging Officers ("Hedging Officers"), or any persons appointed to fill those positions in an interim capacity, are authorized to act in the name of City Public Service to establish, maintain and close brokerage accounts and to execute or act under any other type of agreement, investment or document necessary or desirable that would enable the purchase, sale or other transaction that involves permissible Hedge Instruments specified by the CPS Energy Price Risk Management Policy:

General Manager and CEO
Secretary-Treasurer
Assistant Secretary-Treasurer
Senior Vice President of Energy Supply

Any two Hedging Officers may authorize Hedging Transactions. In addition, any two Hedging Officers may designate in writing one or more representatives ("Authorized Hedging Representatives") with specific authorization to give written or verbal instructions to buy and sell Hedge Instruments and to execute and/or take other actions concerning approved Hedge Instrument transactions as set forth in such written designation. Hedge Instrument transactions executed by an Authorized Hedging Representative must be pre-approved by two Hedging Officers or by any one Hedging Officer and a different Authorized Hedging Representative who has been designated to approve such transactions.

Only the Secretary-Treasurer, Assistant Secretary-Treasurer, and Senior Vice President of Energy Supply shall be considered Investment Officers for purposes of the Hedging Instruments and the Energy Price Risk Management Policy. All such Investment Officers shall sign the quarterly reports required to the CPS Board required under section XI. B. of the Energy Price Risk Management Policy.

Any two Hedging Officers or any one of them and an Authorized Hedging Representative are authorized to release or substitute collateral pledged to secure City Public Service funds.

Certification

This financial policy supersedes previous resolutions/policies made regarding banking and investment transactions, and Investment Officer appointments. A certified copy of the Board of Trustees Resolution approving and adopting this policy will be furnished to all banks, investment firms and brokers and others transacting business with CPS. Banks, investment firms and brokers will be notified by either the Secretary-Treasurer or the Assistant Secretary-Treasurer to the Board of Trustees of the individual names

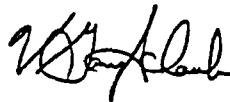
**CPS FINANCIAL AUTHORIZATIONS AND APPROVALS POLICY
FOR BANKING, INVESTMENTS AND HEDGING**

This CPS Financial Authorizations and Approvals Policy for Banking, Investments and Hedging is the attachment referenced in the CPS Investment and Banking Resolution, dated December 29, 2003.

of those who hold the positions specified, including Authorized Employees or Authorized Hedging Representatives, in this financial policy.

I, V. GARY SCHAUB, Secretary of the City Public Service Board of San Antonio, do hereby certify that the above foregoing is a true and correct copy of the attachment referenced in the CPS Investment and Banking Resolution, adopted by the unanimous vote of the Trustees of the Board present at the regular meeting of the Board held on Monday, December 29, 2003.

I hereby further certify that the financial policy, as adopted by the Board of Trustees at this meeting, has not been modified, rescinded nor amended since its adoption.



V. Gary Schaub
City Public Service Board
of San Antonio, Texas

APPENDIX G

CFR 5
WAIS Document Retrieval[Code of Federal Regulations]
[Title 5, Volume 3]
[Revised as of January 1, 2003]
From the U.S. Government Printing Office via GPO Access
[CITE: 5CFR6801.102]

[Page 793]

TITLE 5--ADMINISTRATIVE PERSONNEL

CHAPTER LVIII--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

PART 6801--SUPPLEMENTAL STANDARDS OF ETHICAL CONDUCT FOR EMPLOYEES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM--Table of Contents

Sec. 6801.102 Definitions.

For purposes of this part:

(a) Affiliate means any company that controls, is controlled by, or is under common corporate control with another company.

(b) (1) Debt or equity interest includes secured and unsecured bonds, debentures, notes, securitized assets, commercial paper, and preferred and common stock. The term encompasses both current and contingent ownership interests therein; any such beneficial or legal interest derived from a trust; any right to acquire or dispose of any long or short position in debt or equity interests; any interests convertible into debt or equity interests; and any options, rights, warrants, puts, calls, straddles, and derivatives with respect thereto.

(2) Debt or equity interest does not include deposits; credit union shares; any future interest created by someone other than the employee, his or her spouse, or dependent; or any right as a beneficiary of an estate that has not been settled.

(c) Dependent child means an employee's son, daughter, stepson, or stepdaughter if:

(1) Unmarried, under the age of 21, and living in the employee's household; or

(2) Claimed as a "dependent" on the employee's income tax return.

(d) Depository institution means a bank, trust company, thrift institution, or any institution that accepts deposits, including a bank chartered under the laws of a foreign country.

(e) Employee means an officer or employee of the Board, including a Board member. It does not include a special Government employee.

(f) Primary government securities dealer means a firm with which the Federal Reserve conducts its open market operations.

(g) Supervisory employee means an employee who is a member of the professional staff at the Board with responsibilities in the area of banking supervision and regulation.

APPENDIX H

§ 113.053. Purchase or Sale of Trust Property by Trustee

(a) Except as provided by Subsections (b), (c), (d), (e), (f), and (g), a trustee shall not directly or indirectly buy or sell trust property from or to:

- (1) the trustee or an affiliate;
- (2) a director, officer, or employee of the trustee or an affiliate;
- (3) a relative of the trustee; or
- (4) the trustee's employer, partner, or other business associate.

(b) A national banking association or a state-chartered corporation with the right to exercise trust powers that is serving as executor, administrator, guardian, trustee, or receiver may sell shares of its own capital stock held by it for an estate to one or more of its officers or directors if a court:

- (1) finds that the sale is in the best interest of the estate that owns the shares;
- (2) fixes or approves the sales price of the shares and the other terms of the sale; and
- (3) enters an order authorizing and directing the sale.

(c) If a corporate trustee, executor, administrator, or guardian is legally authorized to retain its own capital stock in trust, the trustee may exercise rights to purchase its own stock if increases in the stock are offered pro rata to shareholders.

(d) If the exercise of rights or the receipt of a stock dividend results in a fractional share holding and the acquisition meets the investment standard required by this subchapter, the trustee may purchase additional fractional shares to round out the holding to a full share.

(e) A trustee may:

(1) comply with the terms of a written executory contract signed by the settlor, including a contract for deed, earnest money contract, buy/sell agreement, or stock purchase or redemption agreement; and

(2) sell the stock, bonds, obligations, or other securities of a corporation to the issuing corporation or to its corporate affiliate if the sale is made under an agreement described in subdivision (1) or complies with the duties imposed by

Section 117.

(f) A national banking association, a state-chartered corporation, including a state-chartered bank or trust company, a state or federal savings and loan association that has the right to exercise trust powers and that is serving as trustee, or such an institution that is serving as custodian with respect to an individual retirement account, as defined by Section 408, Internal Revenue Code, or an employee benefit plan, as defined by Section 3(3), Employee Retirement Income Security Act of 1974 (29 U.S.C. Section 1002(3)), regardless of whether the custodial account is, or would otherwise be, considered a trust for purposes of this subtitle, may:

(1) employ an affiliate or division within a financial institution to provide brokerage, investment, administrative, custodial, or other account services for the trust or custodial account and charge the trust or custodial account for the services, provided, however, nothing in this section shall allow an affiliate or division to engage in the sale or business of insurance if not otherwise permitted to do so; and

(2) receive compensation, directly or indirectly, on account of the services performed by the affiliate or division within the financial institution, whether in the form of shared commissions, fees, or otherwise, provided that any amount charged by the affiliate or division for the services is disclosed and does not exceed the customary or prevailing amount that is charged by the affiliate or division, or a comparable entity, for comparable services rendered to a person other than the trust.

(g) In addition to other investments authorized by law for the investment of funds held by a fiduciary or by the instrument governing the fiduciary relationship, and notwithstanding any other provision of law and subject to the standard contained in Section 117, a bank or trust company acting as a fiduciary, agent, or otherwise, in the exercise of its investment discretion or at the direction of another person authorized to direct the investment of funds held by the bank or trust company as fiduciary, may invest and reinvest in the securities of an open-end or closed-end management investment company or investment trust registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) if the portfolio of the investment company or investment trust consists substantially of investments that are not prohibited by the governing instrument. The fact that the bank or trust company or an affiliate of the bank or trust company provides services to the investment company or investment trust, such as those of an investment advisor, custodian, transfer agent, registrar, sponsor, distributor, manager, or otherwise, and receives compensation for those services does not preclude the bank or trust company from investing or reinvesting in the securities if the compensation is disclosed by prospectus, account statement, or otherwise. An executor or administrator of an estate under a dependent administration or a guardian of an estate shall not so invest or reinvest unless specifically authorized by the court in which such estate or guardianship is pending.

Amended by Acts 1983, 68th Leg., p. 3332, ch. 567, art. 2, § 2, eff. Jan. 1, 1984; Acts 1985, 69th Leg., ch. 974, §§ 1, 2, eff. Aug. 26, 1985; Acts 1989, 71st Leg., ch. 341, § 1, eff. Aug. 28, 1989; Acts 1993, 73rd Leg., ch. 933, § 1, eff. Aug. 30, 1993.

APPENDIX I

SECURITY DEALER QUALIFICATIONS

Each security dealer/broker or bank wishing to do business with CPS or the Trust must meet the following minimum requirements and conditions. The dealer/broker must:

1. Be regulated by and in compliance with all rules and regulations promulgated by the Securities and Exchange Commission.
2. Be registered and in compliance with all rules and regulations promulgated by, and in good standing with the National Association of Securities Dealers, Inc.
3. Immediately disclose real or potential conflicts of interest associated with investment services provided to CPS.
4. Immediately disclose existing or future investigations by federal or state law enforcement or regulatory agencies as a result of alleged violations of securities law or regulatory requirements to the extent that such investigations are directly related to investment services provided to CPS.
5. Complete CPS' Broker/Dealer Questionnaire, provide original signed copies of the Broker/Dealer Certifications for both the CPS Investment Policy and the CPS Decommissioning Trust Investment Policy, and a copy of the firm's most recent audited financial statements.

APPENDIX J

**INVESTMENT POLICY FOR THE
RESTATED DECOMMISSIONING MASTER TRUST AGREEMENT FOR THE
SOUTH TEXAS PROJECT**

CITY PUBLIC SERVICE OF SAN ANTONIO, TEXAS

DEALER CERTIFICATIONS

DEALER/INVESTMENT FIRM: _____

I hereby certify that I have received and thoroughly reviewed the City Public Service Restated Decommissioning Master Trust Agreement for the South Texas Project Investment Policy, dated February 1, 2004, and that the firm I represent 1) meets all requirements established by CPS Security Dealer Qualifications specifications; and 2) has implemented reasonable procedures and controls in an effort to preclude investment transactions between this firm and City Public Service that are not authorized by the Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of CPS' entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative

Name

Title

Date

DEALER CERTIFICATION IS REQUIRED BY THE PUBLIC FUNDS INVESTMENT ACT OF TEXAS, CHAPTER 2256 OF THE TEXAS GOVERNMENT CODE. EACH FIRM SEEKING TO TRADE SECURITIES WITH CITY PUBLIC SERVICE MUST RETURN A COMPLETED DEALER CERTIFICATION.

Enclosure 5

Decommissioning Fund Status Report

SECTION 5
REPORT
[A500-H599]

CERTIFICATE OF
PROOF OF FINANCIAL ASSURANCE
FOR DECOMMISSIONING THE SOUTH TEXAS PROJECT
FOR CITY PUBLIC SERVICE
AT SEPTEMBER 30, 2004


In compliance with the requirements of the Nuclear Regulatory Commission, this annual report of
"PROOF OF FINANCIAL ASSURANCE FOR DECOMMISSIONING THE SOUTH TEXAS PROJECT"
is submitted for Project records.

	<u>TRUST BALANCE @ COST</u>	<u>NRC REQUIREMENT [1]</u>	<u>SURPLUS/ (SHORTAGE)</u>
STP UNIT NO. 1	\$87,968,310	\$40,643,514	\$47,324,796
STP UNIT NO. 2	\$106,171,650	\$39,573,947	\$66,597,703
TOTALS	<u>\$194,139,960</u>	<u>\$80,217,461</u>	<u>\$113,922,499</u>

	<u>TRUST BALANCE @ MARKET</u>	<u>NRC REQUIREMENT [1]</u>	<u>SURPLUS/ (SHORTAGE)</u>
STP UNIT NO. 1	\$99,694,478	\$40,643,514	\$59,050,964
STP UNIT NO. 2	\$120,434,436	\$39,573,947	\$80,860,489
TOTALS	<u>\$220,128,914</u>	<u>\$80,217,461</u>	<u>\$139,911,453</u>

[1] 28 % of total requirement; total requirement determined by Project Manager.
NRC per unit minimum of \$105 million escalated to current year dollars.

Supporting documentation for the actual trust balances are available from this participant at NRC request.

Signed: 
Assistant Treasurer
Title: Vice President Financial Services

Date: October 5, 2004